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STATE OF MONTANA

STATE OF MONTANA

DEPARTMENT OF COMMUNITY AFFAIRS

REPORT ON AUDIT

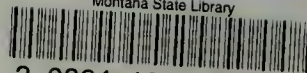
Conducted Under Contract By
Newland, Horn and Taylor, PST, CPA's

Fiscal Year Ended June 30, 1976



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STATE OF MONTANA

DEPARTMENT OF COMMUNITY AFFAIRS

REPORT ON AUDIT

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Fiscal Year Ended June 30, 1976

OVERVIEW

AUDIT OF DEPARTMENT OF COMMUNITY AFFAIRS

December, 1976

INTRODUCTION

The audit of the Department of Community Affairs was a financial-compliance audit for the fiscal year ended June 30, 1976. The purposes of the audit were to determine whether the financial operations of the Department were properly conducted, whether the financial statements for the fiscal year ended June 30, 1976 were presented fairly and whether the Department complied with applicable State laws and regulations.

The audit resulted in an adverse opinion on the Department's financial statements. An adverse opinion means that the financial statements do not present fairly the financial position, current fund revenues and expenditures or changes in fund balances in conformity with generally accepted accounting principles. Exceptions were found that were so material, that a qualified opinion is not justified. An adverse opinion does not mean that the auditor discovered fraud or misuse of funds, but that the financial statements do not adequately represent the Department's financial position or activity.

As set forth in the audit report, three major exceptions were found that resulted in issuing an adverse opinion. These three exceptions are as follows:

1. The Department does not capitalize the acquisition of fixed assets. Therefore, a statement of fixed assets required by generally accepted accounting principles, is not included in the accompanying financial statements.

OVERVIEW

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As set forth in the audit report, three major exceptions were found that resulted in issuing an adverse opinion. These three exceptions are as follows:

1. The Department does not capitalize the acquisition of fixed assets. Therefore, a statement of fixed assets required by generally accepted accounting principles, is not included in the accompanying financial statements.

2. The financial statements do not reflect accounts receivables amounting to \$456,599. The major portion of this is airport loans to local government agencies, which amounts to \$368,537.
3. The financial statements do not reflect an amount of \$124,888 which is to be returned to the Federal Government.

Because of the material effect on the financial statements of these three items, it was necessary to render an adverse opinion.

However, we have discussed these three items with Department officials and they have agreed to take actions necessary to correct these exceptions. As set forth in the audit report, they have concurred with our recommendations regarding these problem areas and have agreed to adjust their records so that their financial statements will be fairly presented.

There are fifty-one recommendations set forth in our audit report. Department officials concurred with all but three recommendations. They partially concurred with one recommendation and did not concur with two.

SYNOPSIS OF MAJOR FINDINGS

There are several areas of major findings presented in the audit report.

Cash

Several recommendations related to cash were made that will improve controls needed in this area.

Accounts Receivable

Numerous recommendations were made related to accounts receivable. These recommendations related to internal control over and the handling of detailed subsidiary records and also to the problem that the total receivables

were not properly recorded on the Department's financial statements. As discussed previously in this overview, the Department officials have concurred with our recommendations related to receivables and are currently taking action to correct the exceptions in this area.

Fixed Assets - property management

Recommendations were made related to controls over fixed assets and also record keeping related to fixed assets. It was also recommended that fixed assets be recorded, by class, on the general ledger. The Department has agreed to complete their computerized inventory of fixed assets and also to record the fixed assets in their financial statements in a separate general fixed assets fund.

Revenue and Expenditures

All recommendations related to revenue and expenditures were concurred with by the officials of the Department. These recommendations will strengthen internal control over these important areas and will also improve records related to revenue and expenditures.

Federal Grants

Our audit included a review of grants entered into with various Federal Agencies. Through our review, we were able to determine that the Department has complied with the terms of the grant contracts.

Compliance

During the course of our audit, we made a review to determine that the Department is properly complying with the laws, regulations and administrative directives of the State of Montana. With the exception of several findings set forth in our report, we found the Department to be generally in compliance

with the laws, statutes and administrative directives of the State. We also made a determination that the budget for the year ended June 30, 1976 was properly adhered to.

Conclusion

Because of the Department's concurring with almost all of our recommendations and their willingness to take actions necessary to correct all exceptions, we believe that the Department has strengthened controls over its resource and has improved the handling of and presentation of their records.

During the course of our audit, the personnel in the Department cooperated with us and assisted us whenever necessary. We believe the personnel we dealt with are very competent individuals and handled their respective jobs in a very efficient and businesslike manner.

STATE OF MONTANA

Office of the Legislative Auditor

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MORRIS L. BRUSETT
LEGISLATIVE AUDITOR

November 30, 1976

The Legislative Audit Committee
of the Montana State Legislature:

Transmitted herewith is the report on the audit of the Department
of Community Affairs for the year ended June 30, 1976.

The audit was conducted by Newland, Horn and Taylor, PST, CPA's,
under a contract between the firm and our office. The comments and
recommendations contained in this report represent the views of the firm
and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is
included in the back of the audit report.

Respectfully submitted,

Morris L. Bruset

Morris L. Bruset, C.P.A.
Legislative Auditor

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SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full reply of the Department of Community Affairs is included in the back of this report.

Page

The Department of Community Affairs give careful consideration to developing a program related to internal auditing within the various divisions of the department. The work to be performed by the internal audit staff does not have to be too extensive to begin with, but should be reviewed and expanded on at least an annual basis. Internal auditing is a very effective method of strengthening internal control. Because of the size of the department and the scope of its activities, the Department of Community Affairs can definitely justify the need for an internal audit function.

8

Agency Reply: Concur. See page 55.

The policy of paying all travel reimbursement out of the revolving fund be reviewed. While the state does authorize that travel advances should come out of this fund when necessary, it does not appear that this account should be used for the reimbursement of all travel expenses.

9

Agency Reply: Do not concur. See page 55.

The list of outstanding checks be reviewed monthly and that checks over ninety days old be written off. The bank should not accept checks over ninety days old, however, if a check is refused, another check can be issued in its place.

9

Agency Reply: Concur. See page 56.

That receipts and disbursements be totaled at least monthly, and that these amounts be used in computing the reconciliation of the account each month.

10

Agency Reply: Concur. See page 56.

A register be maintained showing the names of all individuals who have knowledge of combinations or have been issued keys to safes. Also, when an

SUMMARY OF RECOMMENDATION (Continued)

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individual leaves the department, the combination should be changed or a new lock and new keys should be obtained.	10
<u>Agency Reply:</u> Concur. See page 56.	
That there be proper separation of duties in regard to the handling of cash and the maintenance of accounts receivable. This will bring about proper controls which are necessary in order to be able to rely on the related records.	11
<u>Agency Reply:</u> Concur. See page 57.	
The dishonored checks that cannot be identified be written off and that procedures be established to follow-up on the collection of dishonored checks on a timely basis.	11
<u>Agency Reply:</u> Concur. See page 57.	
The balance of accounts receivable that cannot be identified be written off. An attempt should be made to collect the receivables that can be identified. If these accounts cannot be collected, they should be turned over to the bad debt collection service in the Department of Revenue.	12
<u>Agency Reply:</u> Concur. See page 58.	
That one person be put in charge of all accounts receivable recorded in the department, and also, that the same person be responsible to follow-up on collecting past-due accounts.	12
<u>Agency Reply:</u> Concur. See page 58.	
The total balance of these loans be recorded on the general ledger as loans receivable. After these have been properly set up on the general ledger, the detailed control records should be reconciled to the general ledger account on a monthly basis.	13
<u>Agency Reply:</u> Concur. See page 58.	
The Aeronautics Division prepare a monthly summary statement of all flight dispatch records. This should be sent to the Centralized Services Division, and they will, in turn, check to see that they have received all of the flight dispatch records. This will assure that no flight dispatch record has been lost or has gone unrecorded.	13
<u>Agency Reply:</u> Concur. See page 59.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
The Air Transportation Bureau of Aeronautics Division make a line item administrative charge within their program when their personnel use the planes, consistent with that of charges to other agencies. This will provide for a true aircraft cost picture, which is needed to determine the proper rates to be charged.	14
<u>Agency Reply:</u> Concur. See page 59.	
The Governor's Office be charged on a timely basis for the usage of state planes by the Governor.	14
<u>Agency Reply:</u> Concur. See page 60.	
The balance of outstanding accounts receivable be determined and recorded on the general ledger. After the receivables from local government units have been properly recorded, the detailed control subsidiary ledger should be reconciled to the general ledger on a monthly basis.	14
<u>Agency Reply:</u> Concur. See page 60.	
That after proper records have been established, at the end of each month a list of local government accounts receivables be sent to the Local Government Services Division so that they may actively pursue collection of any past-due accounts, if, after some time, past-due accounts cannot be collected, they should be written off or turned over to the state bad debt collection service.	14
<u>Agency Reply:</u> Concur. See page 61.	
That periodically, after the department has exhausted their means of collection, the past-due accounts receivable be reviewed and those considered uncollectable be turned over to the bad debt collection service in the Department of Revenue.	15
<u>Agency Reply:</u> Concur. See page 61.	
The Research and Information System Division accounts receivable be recorded on the general ledger and that this balance be reconciled to the detailed control subsidiary ledger on a monthly basis.	15
<u>Agency Reply:</u> Concur. See page 61.	

SUMMARY OF RECOMMENDATIONS (Continued)

Page

Continue to computerize the office variety of assets, but expand your computer program to include a monthly listing of all equipment, assigned or not. This monthly report should also show the date each item was acquired, the original cost and the total cost of all items.

17

Agency Reply: Concur. See page 62.

Include all personal property, including vehicles, aircraft, fire trucks, communication equipment, and shop tools that cost in excess of \$100, and other equipment in the computerization of fixed assets and they should then be recorded in a general ledger account.

17

Agency Reply: Concur. See page 62.

Establish a procedure of reconciling with the general ledger control account by noting balances at the beginning of the month, acquisitions during the month, deletions during the month and balances at the end of the month. This balance will then agree with the monthly printout noted above.

17

Agency Reply: Concur. See page 62.

Each different class of assets should be shown separately on the general ledger. Assign equipment numbers in such a manner that monthly listings will be by general ledger asset category and will note both acquisition cost and present value.

17

Agency Reply: Partially concur. See page 62.

Where certain items become component parts of a major unit such as navigational or communication equipment on a particular aircraft, assign these items a number associating them with that particular unit. Also maintain an on-board listing by unit number, of all equipment which is part of the major unit. This can also be done for the communication equipment in a non-directional radio beacon and in an airway beacon installation.

17

Agency Reply: Do not concur. See page 63.

A chain of command over the responsibility for inventorying equipment should be established for all department real and personal property so that all

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
<u>divisions</u> are ultimately responsible to one person for maintaining required controls, reconcilements and other requirements involving inventory of fixed assets.	18
<u>Agency Reply:</u> Concur. See page 64.	
Each division administrator should be provided with a listing of items that are charged to each of their employees and they should sign and return the list on an annual basis. This will not negate the need for an annual inventory, but may make it easier.	18
<u>Agency Reply:</u> Concur. See page 64.	
That Centralized Services Division personnel be required to review the list of unassigned property, locate it and process the transfer to the responsible person.	18
<u>Agency Reply:</u> Concur. See page 64.	
Compile a complete list of all owned and leased real estate, including buildings and airstrips, noting the real estate owned separate from that leased. The costs of owned land and buildings should also be shown on these lists and the totals should be recorded on the general ledger.	18
<u>Agency Reply:</u> Concur. See page 65.	
Hourly rate for pilots should be changed to \$10.00 for each hour away on flights instead of \$20.00 for each hour of flying time.	19
<u>Agency Reply:</u> Concur. See page 65.	
Rates should be increased to cover operating expenses.	19
<u>Agency Reply:</u> Concur. See page 65.	
A 10% surcharge should be added to cover administrative expenses.	19
<u>Agency Reply:</u> Concur. See page 66.	
All agencies should be charged for using airplanes so that the program can be fully funded.	19
<u>Agency Reply:</u> Concur. See page 66.	

SUMMARY OF RECOMMENDATIONS (Continued)

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The rates for aircraft should be reviewed and revised periodically so that they comply with Section 1-1102 which states that all operating costs should be recovered through fees charged.	20
<u>Agency Reply:</u> Concur. See page 66.	
All revenue accounts be reviewed to determine if a better description should be used to more accurately define the nature of the revenue.	21
<u>Agency Reply:</u> Concur. See page 67.	
An attempt be made to register all pilots and airplanes in the state. Assistance in doing this could possibly be obtained from the fuel outlets at the various airports in the state. Also, a list of the pilots licensed in the state could be obtained from the federal licensing authority and notices could then be sent out to all pilots.	21
<u>Agency Reply:</u> Concur. See page 67.	
A procedure be adopted to assure that the duplicate copy of the statement is sent to Local Services Division at the same time it is presented to the unit being audited.	22
<u>Agency Reply:</u> Concur. See page 68.	
As each statement is received from the field auditors, a list be prepared showing the date the audit was completed, the nature of the examination, the name of the government unit audited, and the amount billed. The statement should then be forwarded to the Centralized Services Division. At the end of each month, a copy of this list should be sent to Centralized Services to assure that they have received all the statements rendered during the month.	22
<u>Agency Reply:</u> Concur. See page 68.	
That all audits cover the fiscal year of the agency being audited and that the audit staff be enlarged or some of the audits be contracted out in order to comply with the responsibility of conducting audits on an annual basis. In order to conduct a more effective audit, the audit should be completed within twelve months after the fiscal year-end of the	

SUMMARY OF RECOMMENDATIONS (Continued)

Page

government unit being audited. It should be noted that effective for the year beginning July 1, 1976, independent public accountants can be contracted to audit these agencies if the consent of the agency being audited is obtained.

23

Agency Reply: Concur. See page 69.

When materials and supply purchases are made, a receiving report, properly checked and initialed by a person responsible for receiving merchandise, be attached to the invoice when presented for payment, and that these reports be included as a part of the claims package.

24

Agency Reply: Concur. See page 71.

That all invoices submitted for payment be signed for approval by the individual responsible for the purchase. We also recommend that Centralized Services Division maintain an up-to-date list of the signatures of all those persons authorized to approve expenditures.

25

Agency Reply: Concur. See page 71.

That purchase orders be used for the payment of rent on all aircraft leased by the department.

25

Agency Reply: Concur. See page 72.

That transportation purchase orders, such as those used for commercial flights, also be used when a request is made to use aircraft maintained by the state. The transportation purchase order should be prepared in triplicate by the agency requesting the use of the aircraft. It should have a complete explanation of the purpose of the flight and should have a signature showing proper authorization. One copy of the transportation purchase order should go to the Aeronautics Division, one to the Centralized Services Division, and the other should be retained by the agency requesting the use of the aircraft. At the end of the month when the Aeronautics Division sends the aircraft charged to the Centralized Services Division, the related transportation purchase order should be attached to the invoice. Also, when the no-warrant transfer is then prepared, the applicable transportation purchase order should be attached to support the no-warrant transfer.

26

Agency Reply: Concur. See page 73.

SUMMARY OF RECOMMENDATIONS (Continued)

Page

All personnel files be reviewed to determine that all employee information is complete and up-to-date. We found, for instance, that not all employees had a signed W-4 form on file and very few had decedent warrants. Each personnel file should also contain a standard form showing such things as initial pay plan placement, appropriation and program charged, merit step increases and position changes. 27

Agency Reply: Concur. See page 74.

That written formal leave request forms be required for all leave taken. The standard form P-1 designed by the state, should be used for this purpose. 27

Agency Reply: Concur. See page 74.

A procedure be established to allow for the appropriation of funds needed to handle the contingent liability resulting from the accumulation of sick and annual leave. 28

Agency Reply: Concur. See page 75.

That Centralized Services Division prepare all financial reports as required by the contract and which must be approved by the project director. 28

Agency Reply: Concur. See page 75.

A subsidiary ledger be maintained for all contracts, recording such items as grantees name, contract amount, contract number, reporting requirements, cash received, and cash expended. 28

Agency Reply: Concur. See page 76.

That subsidiary records and reports to grantees be reconciled to the Statewide Budget and Accounting System reports on a monthly basis. 29

Agency Reply: Concur. See page 76.

A review be made of the duties of the Audit Bureau of the Local Government Services Division. Section 84-4502 of the Revised Statutes of Montana states that the books and accounts of all counties and incorporated cities and towns shall be examined annually. In order for the audit to be conducted properly, it should be initiated no later than one

SUMMARY OF RECOMMENDATIONS (Continued)

Page

year from the close of the period being audited. Apparently, because of the lack of audit personnel, these audits have not been initiated and completed on a timely basis.

31

Agency Reply: Concur. See page 76.

The records kept by the department related to property management, be expanded and brought up-to-date in accordance with Management Memorandum 70-17. Although records are kept related to office equipment and furniture, when items are reassigned to new or different personnel, or when an item becomes unassigned, for instance, when an employee leaves, the related records are not always properly adjusted. While there are detailed records regarding office equipment and furniture, there are no control records for major assets owned by the department, such as airplanes and fire protection vehicles.

31

Agency Reply: Concur. See page 77.

The department use the standard request for a leave of absence form as shown in Section 1-0304.81 of the Montana Administrative Manual. While most absences are properly approved, the department is not following the proper procedures set forth by the State of Montana.

32

Agency Reply: Concur. See page 77.

The Montana Administrative Code be updated and expanded. Although the general organization rule related to the Department of Community Affairs, as set forth in Title 22 of the code is complete, consideration should be given to expanding the code so that there is a separate chapter setting forth in detail the laws, statutes and procedural requirements applicable to each division within the department. The only chapter related to a specific division which is now a part of the code sets forth provisions and requirements applicable to the Planning and Economic Development Division. However, this chapter is currently obsolete, since this division is now broken down into two divisions, the Economic Development Division and the Planning Division.

32

Agency Reply: Concur. See page 78.

SUMMARY OF RECOMMENDATIONS (Continued)

Page

That all state agencies be charged for using state airplanes on a current basis. At the present time, the Governor's Office is not being charged on a timely basis when the Governor uses state airplanes. This is not in accordance with Section 1-1102 of the Revised Codes of Montana.

33

Agency Reply: Concur. See page 78.

NEWLAND, HORN, AND TAYLOR, PST

CERTIFIED PUBLIC ACCOUNTANTS

53 WEST BROADWAY

BUTTE, MONTANA 59701

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial statements of the various funds of the Department of Community Affairs for the year ended June 30, 1976 as listed in the accompanying table of contents. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Department of Community Affairs does not capitalize the acquisition of fixed assets and has not maintained complete records of its general fixed assets. Therefore, a statement of general fixed assets required by generally accepted accounting principles, is not included in the accompanying financial statements.

As discussed in Note 4 to the financial statements, the accompanying financial statements do not reflect unrecorded accounts receivable amounting to \$456,599.

As discussed more fully in Note 7 to the financial statements, the accompanying financial statements do not reflect an amount of \$124,888 which is to be returned to the Federal Government.

In our opinion, because of the material effect on the financial statements of the items discussed in the three preceding paragraphs, the aforementioned financial statements do not present fairly the financial position of the various funds of the Department of Community Affairs as of June 30, 1976, or the results of its operations or changes in its financial position for the year then ended, in conformity with generally accepted accounting principles.

Newland, Horn and Taylor, P.S.T., C.P.A.'s

Certified Public Accountants

Butte, Montana
October 14, 1976

GENERAL COMMENTS REGARDING ORGANIZATION AND OPERATIONS

INTRODUCTION

The Department of Community Affairs was created under the Executive Reorganization Act of 1971 by Executive Order of the Governor on August 9, 1971. The Department was formerly named the "Department of Intergovernmental Relations." The Department was renamed the "Department of Community Affairs" pursuant to Chapter 213, Laws of 1975.

The major objective of the Department is to provide better living conditions and a better environment for the citizens of the State of Montana. It strives to reach its goals by providing better community and land use planning, by encouraging economic development that is harmonious with the goals of the state, and by promoting and coordinating programs that will insure all citizens equal rights and opportunities. The Department coordinates and plans highway safety programs and also supervises state aeronautic activities. It supervises and provides assistance to local government agencies regarding budgeting, accounting and general fiscal procedures and serves as a liaison between federal, state and local governments for efficiency and use of funds. In order to make objective decisions related to planning and developing programs, including those related to housing needs, the Department collects, maintains, and distributes statistics and other pertinent state information. The Department is also responsible to set standards and prices for county and legal advertising.

The Department of Community Affairs is headed by the Director, who is appointed by and serves at the pleasure of the Governor. Because of its numerous powers and duties, the Department is currently broken down into nine separate divisions. Attached to the Department for administrative purposes only are four boards and two state government units.

AERONAUTICS DIVISION

The Aeronautics Division promotes and assists in the development of aeronautics in the State, including programs aimed at making the aviation available to Montanans safe, reliable, efficient and economical. It assists municipalities in developing a system of airports and other aeronautical facilities for the State and operates and maintains State-owned airports. This division also operates and controls the State aircraft pool, provides aircraft transportation for State officials, and represents the State in aviation matters.

ECONOMIC DEVELOPMENT DIVISION

The primary goal of the Economic Development Division is to improve the economic well-being of Montana citizens by stimulating private and public investment in Montana, which will enhance employment and income opportunities. It provides assistance to existing industries, encourages new industries and provides assistance to local and regional development efforts. The division aids industries and potential investors by answering inquiries, publishing brochures and promotional materials, making market and site surveys and furnishing information related to applicable State laws and regulations.

HIGHWAY SAFETY DIVISION

It is the responsibility of the Highway Safety Division to create, implement and maintain a comprehensive traffic safety program aimed at reducing accident rates, the severity of accidents, and accident fatality rates. Its primary function is to coordinate efforts of Federal, State and Local Government agencies and to see that all available funds are utilized.

RESEARCH & INFORMATION SYSTEMS DIVISION

The primary function of the Research and Information Systems Division is

to provide an information and research service for the Department, federal, state and local governmental agencies, industry, and the people of Montana. It collects and maintains a wide variety of information related to social, economic, demographic and land use data and develops systems related to the subsequent analysis of this information. This division also operates and maintains the Department's library and conducts economic research studies.

HUMAN RESOURCES DIVISION

It is the responsibility of the Human Resources Division to see that all available federal grants and other anti-poverty resources are properly coordinated and utilized. It also assists local community action groups in developing social action projects that will maximize citizen participation in the decision-making processes of state and local government and assist low-income/minority groups to achieve social and economic independence, equality and opportunity.

LOCAL GOVERNMENT SERVICES DIVISION

The Local Government Services Division has three major functions which are performed by its three bureaus as follows:

1. The Accounting and Management Systems Bureau assists local governments in developing reliable financial and budgetary accounting records and reporting procedures.
2. The Auditing Bureau performs audits of local governmental units to determine that financial operations are conducted properly, financial reports are presented fairly, applicable Montana and Federal laws and regulations are being complied with, and resources are being managed or utilized in an economic and efficient manner.

LOCAL GOVERNMENT SERVICES DIVISION - CONTINUED

3. The Local Assistance Bureau serves as a consultant to local government units requiring technical assistance and acts as a liaison between local government and State and Federal Agencies.

PLANNING DIVISION

The Planning Division is the principal agency of the State in providing technical, financial and professional planning assistance to all State government units. This Division also serves as a liaison between Federal, State and Local governments in planning and developing programs related to housing, transportation, land use and city and county government. It is also responsible for the implementation and maintenance of the State subdivision law, which includes the development and adoption of statewide subdivision regulations.

HOUSING DIVISION

The Housing Division provides State support in establishing programs to solve crucial housing problems, especially those applicable to minorities and persons of low and moderate income. By assisting in the organization and development of local, State and Federal planning groups, and by providing research, information, technical and financial assistance, it attempts to increase the supply, distribution and availability of suitable housing for Montanans.

CENTRALIZED SERVICES DIVISION

The Centralized Services Division's prime function is to serve as a support agency for the other divisions of the Department by performing administrative duties. Services provided by this division include accounting, budgeting, fee collection, purchasing, payroll, personnel records and general services.

BOARD OF COUNTY PRINTING

The Board of County Printing is responsible to set maximum rates and establish all necessary standards relative to county printing and legal advertising.

BOARD OF AERONAUTICS

The Board of Aeronautics conducts hearings and issues certificates to air carriers allowed to do business in Montana.

COAL BOARD

The Coal Board is responsible to allocate the Department's share of coal tax collected to local government units to assist these local units in lessening the impact of coal development.

BOARD OF HOUSING

The Board of Housing is responsible to develop programs funded by the issuance of revenue bonds and designed to assist in meeting critical housing needs.

INDIAN AFFAIRS UNIT

The Indian Affairs Unit serves as a liaison between Indian people in Montana and state government in striving to upgrade the general economic conditions of Montana Indians.

THE OLD WEST UNIT

The Old West Unit administers the grant agreement between the Department and the Old West Regional Commission. The Old West Regional Commission is a federal-state partnership formed to promote economic development in Montana, Nebraska, North Dakota, South Dakota and Wyoming.

COMMENTS AND RECOMMENDATIONS REGARDING
INTERNAL CONTROL, ACCOUNTING PROCEDURES AND COMPLIANCE

INTRODUCTION

Under our audit contract with the Office of the Legislative Auditor of the State of Montana, we were required to conduct a financial compliance audit of the Department of Community Affairs of the State of Montana for the fiscal year ended June 30, 1976. Our examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures we considered necessary. We were not required, however, to make a detailed examination of every transaction, such as would be necessary to disclose defalcations or irregularities, should any exist.

As a basis to determine the extent of tests of accounting records and other auditing procedures necessary, we made an evaluation of the existing system of internal control. The objective of internal accounting control, through a proper plan of organization of methods and procedures, is to provide reasonable, but not absolute, assurance of the safeguarding of assets, and the reliability of financial records. While our evaluation of the system of internal control of the Department of Community Affairs did not necessarily disclose all weaknesses, such study did disclose certain conditions which we believe deserve attention. These conditions and related recommendations are set forth as a part of this report.

Our audit of the Department of Community Affairs also included procedures we considered necessary to determine that the Department is properly complying with all applicable laws, regulations and administrative directives of the State of Montana. Comments and recommendations related to financial compliance are also set forth as a part of this report.

INTERNAL AUDIT FUNCTIONS

Although the Centralized Services Division of the Department of Community Affairs conducts audits of subcontractors receiving grants through the Department, it does not perform internal audit procedures within the Department.

In 1973, the Centralized Services Division made a detailed write-up of procedures that should be followed in their division. This write-up included answers to questions from internal control questionnaires regarding the flow of cash, source documents, accounting records and control of other assets within the division. This division also assists in setting up new systems when necessary and also reviews and attempts to remedy problem areas when brought to their attention. They do not, however, have a formal program regarding the use of internal auditing.

RECOMMENDATION:

WE RECOMMEND THAT THE DEPARTMENT OF COMMUNITY AFFAIRS GIVE CAREFUL CONSIDERATION TO DEVELOPING A PROGRAM RELATED TO INTERNAL AUDITING WITHIN THE VARIOUS DIVISIONS OF THE DEPARTMENT. THE WORK TO BE PERFORMED BY THE INTERNAL AUDIT STAFF DOES NOT HAVE TO BE TOO EXTENSIVE TO BEGIN WITH, BUT SHOULD BE REVIEWED AND EXPANDED ON AT LEAST AN ANNUAL BASIS. INTERNAL AUDITING IS A VERY EFFECTIVE METHOD OF STRENGTHENING INTERNAL CONTROL. BECAUSE OF THE SIZE OF THE DEPARTMENT AND THE SCOPE OF ITS ACTIVITIES, THE DEPARTMENT OF COMMUNITY AFFAIRS CAN DEFINITELY JUSTIFY THE NEED FOR AN INTERNAL AUDIT FUNCTION.

CASH

A contingent revolving fund is maintained in the Centralized Services Division of the Department. This fund is used mainly for travel advances and reimbursement of travel expenses. During the year ended June 30, 1976, there was approximately \$198,000 expended out of the Revolving Fund. Although there is a warrant system set up by the State for reimbursement of travel expenses for all State agencies, this was seldom used by the Department personnel.

RECOMMENDATION:

WE RECOMMEND THAT THE POLICY OF PAYING ALL TRAVEL REIMBURSEMENT OUT OF THE REVOLVING FUND BE REVIEWED. WHILE THE STATE DOES AUTHORIZE THAT TRAVEL ADVANCES SHOULD COME OUT OF THIS FUND WHEN NECESSARY, IT DOES NOT APPEAR THAT THIS ACCOUNT SHOULD BE USED FOR THE REIMBURSEMENT OF ALL TRAVEL EXPENSES.

As of June 30, 1976, there were five outstanding checks totaling \$548 which were over 90 days old. Several of these checks were over one year old. On the face of each check there is a statement that indicates that if the check is over ninety days old, it is no longer valid.

RECOMMENDATION:

WE RECOMMEND THAT THE LIST OF OUTSTANDING CHECKS BE REVIEWED MONTHLY AND THAT CHECKS OVER NINETY DAYS OLD BE WRITTEN OFF. THE BANK SHOULD NOT ACCEPT CHECKS OVER NINETY DAYS OLD, HOWEVER, IF A CHECK IS REFUSED, ANOTHER CHECK CAN BE ISSUED IN ITS PLACE.

Manual records related to revolving Fund are maintained in the Centralized Services division. Receipts and disbursements are both shown on these records, together with the balance in the account. The receipts and disbursements shown on these records, however, are not totaled separately on a periodic basis.

RECOMMENDATION:

WE RECOMMEND THAT RECEIPTS AND DISBURSEMENTS BE TOTALED AT LEAST MONTHLY, AND THAT THESE AMOUNTS BE USED IN COMPUTING THE RECONCILIATION OF THE ACCOUNT EACH MONTH.

There is currently no register maintained showing the personnel that have knowledge of combinations or keys to safes located in the Centralized Services Division.

RECOMMENDATION:

WE RECOMMEND THAT A REGISTER BE MAINTAINED SHOWING THE NAMES OF ALL INDIVIDUALS WHO HAVE KNOWLEDGE OF COMBINATIONS OR HAVE BEEN ISSUED KEYS TO SAFES. ALSO, WHEN AN INDIVIDUAL LEAVES THE DEPARTMENT, THE COMBINATION SHOULD BE CHANGED OR A NEW LOCK AND NEW KEYS SHOULD BE OBTAINED.

ACCOUNTS RECEIVABLE

Some accounts receivable are controlled through manually posted detailed control subsidiary ledgers maintained in the Centralized Services Division. There are some receivables, however, that are not controlled by a detailed set of records. Also, the total control balances of the records that are maintained are not set up properly on the general ledger. The amounts shown on the general ledger as accounts receivable, except for dishonored checks, are not supported by detailed records. As of June 30, 1976, the total unrecorded accounts receivable related to the Department of Community Affairs was as follows:

Airport Loans	\$368,537
Service Fees from Local Govern- ment	43,213
Research & Information System Charges	2,342
Airport Rentals	7,866
Veterans Administration	5,898
Accrued Interest Receivable	<u>28,743</u>
Total	<u>\$456,599</u>

The person who makes the total daily deposit for the Department, also prepares the Department's daily collection report and posts the entries to the accounts receivable subsidiary ledger for Airport Loans. This procedure does not provide proper internal control.

RECOMMENDATION:

WE RECOMMEND THAT THERE BE PROPER SEPARATION OF DUTIES IN REGARD TO THE HANDLING OF CASH AND THE MAINTENANCE OF ACCOUNTS RECEIVABLE. THIS WILL BRING ABOUT PROPER CONTROLS WHICH ARE NECESSARY IN ORDER TO BE ABLE TO RELY ON THE RELATED RECORDS.

Dishonored checks are shown on the general ledger. However, of the total balance shown of \$439, \$13 is unidentifiable, and on the balance of \$426, there has been no action taken on a timely basis to follow-up on collecting these checks. Some of these checks are dated as far back as 1974.

RECOMMENDATION:

WE RECOMMEND THAT THE DISHONORED CHECKS THAT CANNOT BE IDENTIFIED BE WRITTEN OFF AND THAT PROCEDURES BE ESTABLISHED TO FOLLOW-UP ON THE COLLECTION OF DISHONORED CHECKS ON A TIMELY BASIS.

At the present time, other than dishonored checks, the balance of accounts receivable shown on the general ledger is \$2,343. This balance has been shown on

the books since 1973. There are no records to show who owes most of this, and for the small amounts that are known, there has been no attempt made to make any collections.

RECOMMENDATION:

WE RECOMMEND THAT THE BALANCE OF ACCOUNTS RECEIVABLE THAT CANNOT BE IDENTIFIED BE WRITTEN OFF. AN ATTEMPT SHOULD BE MADE TO COLLECT THE RECEIVABLES THAT CAN BE IDENTIFIED. IF THESE ACCOUNTS CANNOT BE COLLECTED, THEY SHOULD BE TURNED OVER TO THE BAD DEBT COLLECTION SERVICE IN THE DEPARTMENT OF REVENUE.

There are sufficient accounts receivable in the Department of Community Affairs to warrant having one person in charge of maintaining the receivable records, and also pursuing collections. At the present time there is no one person in the Department responsible to take action to collect past-due accounts. Each Division is in charge of their own accounts receivable and as a result, there has been little attempt to follow-up on collecting.

RECOMMENDATION:

WE RECOMMEND THAT ONE PERSON BE PUT IN CHARGE OF ALL ACCOUNTS RECEIVABLE RECORDED IN THE DEPARTMENT, AND ALSO, THAT THE SAME PERSON BE RESPONSIBLE TO FOLLOW-UP ON COLLECTING PAST-DUE ACCOUNTS.

The Aeronautics Division makes loans to local government agencies to set up airports and to improve existing airports. There are notes signed, loan files are set up and interest is charged on these loans. However, when these loans are made, they are shown as an expense to the Department. When money is received for payment of these loans, the payments are reflected as revenue to the Department. These are valid loans and should be recorded as such. The outstanding loan balance of \$368,537 as of June 30, 1976 should be recorded on the general ledger. The payments received during the year ended June 30,

1976 was \$124,014 and the amount loaned out was \$50,500. The related revenue and expense accounts are overstated by these amounts.

RECOMMENDATION:

WE RECOMMEND THAT THE TOTAL BALANCE OF THESE LOANS BE RECORDED ON THE GENERAL LEDGER AS LOANS RECEIVABLE. AFTER THESE HAVE BEEN PROPERLY SET UP ON THE GENERAL LEDGER, THE DETAILED CONTROL RECORDS SHOULD BE RECONCILED TO THE GENERAL LEDGER ACCOUNT ON A MONTHLY BASIS.

Copies of the flight dispatch records are sent to the Centralized Services Division and from these records an entry is made to reflect the collections from other agencies. Under the present system, if the Centralized Services Division does not receive a flight dispatch record, the correct entry will not be made and there is no way this will be detected.

The only people who are not charged on a current basis for using the State planes are the Governor and personnel in the Air Transportation Bureau of the Aeronautics Division. In order to show a realistic operating statement, the Air Transportation Bureau should be charged for the use of the plane as a part of their administrative expenses so that an accurate accounting of all costs is properly shown. The Governor's Office should also be charged on a timely basis when the Governor uses any State aircraft.

RECOMMENDATION:

WE RECOMMEND THAT THE AERONAUTICS DIVISION PREPARE A MONTHLY SUMMARY STATEMENT OF ALL FLIGHT DISPATCH RECORDS. THIS SHOULD BE SENT TO THE CENTRALIZED SERVICES DIVISION, AND THEY WILL, IN TURN, CHECK TO SEE THAT THEY HAVE RECEIVED ALL OF THE FLIGHT DISPATCH RECORDS. THIS WILL ASSURE THAT NO FLIGHT DISPATCH RECORD HAS BEEN LOST OR HAS GONE UNRECORDED.

RECOMMENDATION:

WE RECOMMEND THAT THE AIR TRANSPORTATION BUREAU OF AERONAUTICS DIVISION MAKE A LINE ITEM ADMINISTRATIVE CHARGE WITHIN THEIR PROGRAM WHEN THEIR PERSONNEL USE THE PLANES, CONSISTENT WITH THAT OF CHARGES TO OTHER AGENCIES. THIS WILL PROVIDE FOR A TRUE AIRCRAFT COST PICTURE, WHICH IS NEEDED TO DETERMINE THE PROPER RATES TO BE CHARGED.

RECOMMENDATION:

WE RECOMMEND THAT THE GOVERNOR'S OFFICE BE CHARGED ON A TIMELY BASIS FOR THE USAGE OF STATE PLANES BY THE GOVERNOR.

At the present time there is a list kept in the Centralized Services Division showing each county, city and town charged for local government services. As a bill is issued to the municipality, the date and the amount is listed by the corresponding local government unit. When the payment is received, it is posted opposite the amount billed. However, there is no control balance to assure everything is billed and collected and the outstanding accounts receivable balance is not recorded on the general ledger. There are not proper controls set up over these accounts receivable.

RECOMMENDATION:

WE RECOMMEND THAT THE BALANCE OF OUTSTANDING ACCOUNTS RECEIVABLE BE DETERMINED AND RECORDED ON THE GENERAL LEDGER. AFTER THE RECEIVABLES FROM LOCAL GOVERNMENT UNITS HAVE BEEN PROPERLY RECORDED, THE DETAILED CONTROL SUBSIDIARY LEDGER SHOULD BE RECONCILED TO THE GENERAL LEDGER ON A MONTHLY BASIS.

RECOMMENDATION:

WE RECOMMEND THAT AFTER PROPER RECORDS HAVE BEEN ESTABLISHED, AT THE END OF EACH MONTH A LIST OF LOCAL GOVERNMENT ACCOUNTS RECEIVABLES BE SENT TO THE LOCAL GOVERNMENT SERVICES DIVISION SO

THAT THEY MAY ACTIVELY PURSUE COLLECTION OF ANY PAST-DUE ACCOUNTS. IF, AFTER SOME TIME, PAST-DUE ACCOUNTS CANNOT BE COLLECTED, THEY SHOULD BE WRITTEN OFF OR TURNED OVER TO THE STATE BAD DEBT COLLECTION SERVICE.

In reviewing the accounts receivable of the Research and Information System Division, it was brought to our attention that after so many months, old accounts are written off with no attempt to turn them over to the State Bad Debt Collection Service. Although most of the amounts are very small and it would not be worth the effort to pursue collection, there are several larger accounts that should be turned over to the State Collection Agency.

RECOMMENDATION:

WE RECOMMEND THAT PERIODICALLY, AFTER THE DEPARTMENT HAS EXHAUSTED THEIR MEANS OF COLLECTION, THE PAST-DUE ACCOUNTS RECEIVABLE BE REVIEWED AND THOSE CONSIDERED UNCOLLECTIBLE BE TURNED OVER TO THE BAD DEBT COLLECTION SERVICE IN THE DEPARTMENT OF REVENUE.

The Department of Revenue will not accept uncollectible accounts unless they have been recorded on the general ledger. The accounts receivable for Research and Information System Division and Local Government Assistance at the present time, are not shown on the general ledger.

RECOMMENDATION:

WE RECOMMEND THAT THE RESEARCH AND INFORMATION SYSTEM DIVISION ACCOUNTS RECEIVABLE BE RECORDED ON THE GENERAL LEDGER AND THAT THIS BALANCE BE RECONCILED TO THE DETAILED CONTROL SUBSIDIARY LEDGER ON A MONTHLY BASIS.

FIXED ASSETS - PROPERTY MANAGEMENT

The Department has computerized the record-keeping and control over a portion of their equipment. This includes only the minor items such as office equipment and excludes such major items as aircraft, large vehicles and equipment, buildings and some communications installations and equipment.

Costs are retained on computerized assets, but non-computerized items are poorly controlled. A total printout of all computerized equipment is not made. Only that equipment which is computer assigned to individual personnel is listed monthly. That which has not been assigned or has been reassigned is omitted from monthly runs. No attempt has been made to set up the cost of fixed assets in a control account on the general ledger.

Employees charged with the responsibility of certain items are not informed on a periodic basis as to what items are charged to them in order that they may react to improper assignments of items which have been transferred, or are no longer in use.

In the case of trade-ins or other deletions, action is not taken to record these transactions on a timely basis. This should be done at the time the article is traded-in, scrapped or sold.

Forms for adding, deleting or transferring items by the Computer Department are not retained in duplicate by the Centralized Services Division to provide a check on the thoroughness of the computer process. This would allow processing errors to go undetected.

RECOMMENDATIONS:

WE MAKE THE FOLLOWING RECOMMENDATIONS PERTAINING TO EXPANDING AND IMPROVING THE ACCOUNTING CONTROLS OVER ALL DEPARTMENT ASSETS:

1. CONTINUE TO COMPUTERIZE THE OFFICE VARIETY OF ASSETS, BUT EXPAND YOUR COMPUTER PROGRAM TO INCLUDE A MONTHLY LISTING OF ALL EQUIPMENT, ASSIGNED OR NOT. THIS MONTHLY REPORT SHOULD ALSO SHOW THE DATE EACH ITEM WAS ACQUIRED, THE ORIGINAL COST AND THE TOTAL COST OF ALL ITEMS.
2. INCLUDE ALL PERSONAL PROPERTY, INCLUDING VEHICLES, AIRCRAFT, FIRE TRUCKS, COMMUNICATION EQUIPMENT, AND SHOP TOOLS THAT COST IN EXCESS OF \$100, AND OTHER EQUIPMENT IN THE COMPUTERIZATION OF FIXED ASSETS AND THEY SHOULD THEN BE RECORDED IN A GENERAL LEDGER ACCOUNT.
3. ESTABLISH A PROCEDURE OF RECONCILING WITH THE GENERAL LEDGER CONTROL ACCOUNT BY NOTING BALANCES AT THE BEGINNING OF THE MONTH, ACQUISITIONS DURING THE MONTH, DELETIONS DURING THE MONTH AND BALANCES AT THE END OF THE MONTH. THIS BALANCE WILL THEN AGREE WITH THE MONTHLY PRINTOUT NOTED ABOVE.
4. EACH DIFFERENT CLASS OF ASSETS SHOULD BE SHOWN SEPARATELY ON THE GENERAL LEDGER. ASSIGN EQUIPMENT NUMBERS IN SUCH A MANNER THAT MONTHLY LISTINGS WILL BE BY GENERAL LEDGER ASSET CATEGORY AND WILL NOTE BOTH ACQUISITION COST AND PRESENT VALUE.
5. WHERE CERTAIN ITEMS BECOME COMPONENT PARTS OF A MAJOR UNIT SUCH AS NAVIGATIONAL OR COMMUNICATION EQUIPMENT ON A PARTICULAR AIRCRAFT, ASSIGN THESE ITEMS A NUMBER ASSOCIATING THEM WITH THAT PARTICULAR UNIT. ALSO MAINTAIN AN ON-BOARD LISTING BY UNIT NUMBER, OF ALL EQUIPMENT WHICH IS PART OF THE MAJOR UNIT. THIS CAN ALSO BE DONE FOR THE COMMUNICATION

EQUIPMENT IN A NON-DIRECTIONAL RADIO BEACON AND IN AN AIRWAY BEACON INSTALLATION.

6. A CHAIN OF COMMAND OVER THE RESPONSIBILITY FOR INVENTORYING EQUIPMENT SHOULD BE ESTABLISHED FOR ALL DEPARTMENT REAL AND PERSONAL PROPERTY SO THAT ALL DIVISIONS ARE ULTIMATELY RESPONSIBLE TO ONE PERSON FOR MAINTAINING REQUIRED CONTROLS, RECONCILEMENTS AND OTHER REQUIREMENTS INVOLVING INVENTORY OF FIXED ASSETS.
7. EACH DIVISION ADMINISTRATOR SHOULD BE PROVIDED WITH A LISTING OF ITEMS THAT ARE CHARGED TO EACH OF THEIR EMPLOYEES AND THEY SHOULD SIGN AND RETURN THE LIST ON AN ANNUAL BASIS. THIS WILL NOT NEGATE THE NEED FOR AN ANNUAL INVENTORY, BUT MAY MAKE IT EASIER.
8. THAT CENTRALIZED SERVICES DIVISION PERSONNEL BE REQUIRED TO REVIEW THE LIST OF UNASSIGNED PROPERTY, LOCATE IT AND PROCESS THE TRANSFER TO THE RESPONSIBLE PERSON.
9. COMPILE A COMPLETE LIST OF ALL OWNED AND LEASED REAL ESTATE, INCLUDING BUILDINGS AND AIRSTRIPS, NOTING THE REAL ESTATE OWNED SEPARATE FROM THAT LEASED. THE COSTS OF OWNED LAND AND BUILDINGS SHOULD ALSO BE SHOWN ON THESE LISTS AND THE TOTALS SHOULD BE RECORDED ON THE GENERAL LEDGER.

In examining the usage of various items of equipment, we find that most items of equipment do not lend themselves to a great amount of unauthorized usage. Items such as office equipment are controlled by annual physical inspection. This same type of control could be effected for small tools and other equipment. The use of vehicles, however, should be controlled by logs in much the same manner as is done for aircraft.

In examining the cost of operating aircraft, we found that all aircrafts is charged out to individual State agencies using the airplanes, at the published rate, with two exceptions. Flights within the Air Transportation Bureau program are not billed under the principle that its charge would be made against the same program that reports the revenue and thereby would not change the overall result. The second exception is for flights in which the Governor participates, which are not billed to the Governor's Office on a current basis.

In examining the laws and regulations of the State of Montana, we find no authority that exempts the Governor's Office or any other State agencies from being billed for usage. Section 1-1102 of the Revised Codes of Montana provides that a charge is to be made to State agencies using the planes to cover the cost of administration, operation, maintenance, storage and replacement.

We also have determined that hourly rates for planes and personnel is not sufficient to cover the total cost. A management report dealing with the Aeronautic Division recommends, among other things, that rates be revised. We concur with these recommendations.

RECOMMENDATIONS:

1. HOURLY RATE FOR PILOTS SHOULD BE CHANGED TO \$10.00 FOR EACH HOUR AWAY ON FLIGHTS INSTEAD OF \$20.00 FOR EACH HOUR OF FLYING TIME.
2. RATES SHOULD BE INCREASED TO COVER OPERATING EXPENSES.
3. A 10% SURCHARGE SHOULD BE ADDED TO COVER ADMINISTRATIVE EXPENSES.
4. ALL AGENCIES SHOULD BE CHARGED FOR USING AIRPLANES SO THAT THE PROGRAM CAN BE FULLY FUNDED.

It should be noted that at the time of our examination, the procedure of charging pilot's rate at \$10.00 per hour had been effected. Also, the rate for the Beech Bonanza was raised from \$40.00 to \$50.00 to cover its operating cost adequately. However, the rate of \$200.00 per hour to cover the cost of the leased Duke Craft created an operating deficit from \$1.22 per hour in January to \$28.74 per hour in June.

Also, the cost of operating the Queen Air was approximately \$9.47 per hour greater than billed, and the Cessna \$7.50 per hour greater. The practice of not charging for the Governor's flight time has not been changed nor has the 10% surcharge to cover management been effected.

RECOMMENDATION:

WE RECOMMEND THAT THE RATES FOR AIRCRAFT SHOULD BE REVIEWED AND REVISED PERIODICALLY SO THAT THEY COMPLY WITH SECTION 1-1102 WHICH STATES THAT ALL OPERATING COSTS SHOULD BE RECOVERED THROUGH FEES CHARGED.

ACCRUED EXPENDITURES

As of the close of the fiscal year ended June 30, 1975, accrued expenditures shown on the records were \$108,889. During the fiscal year ended June 30, 1976, \$76,857 was charged to a prior year adjustments account. The \$76,857 represents the amount of accruals that were not recorded at the end of the fiscal year. The largest one item included in the year adjustments account resulted from the purchase of a fire truck for the West Yellowstone Airport, which cost \$54,817. The amount due for the purchase of the fire truck was known at the end of the previous year and it should have been accrued at that time.

As of June 30, 1976, the amount recorded as accrued expenditures was

\$119,280. During July and August \$42,781 had already been charged to the prior years adjustments account.

July 19th is the cut-off date for submitting accruals to be recorded as of June 30th and this is the main reason that all accruals are not recorded at the end of the year, since there are bills that are not received until after this date.

REVENUE

The descriptions of various revenue accounts shown on the records of the Department of Community Affairs do not properly explain the nature of the revenue.

RECOMMENDATION:

WE RECOMMEND THAT ALL REVENUE ACCOUNTS BE REVIEWED TO DETERMINE IF A BETTER DESCRIPTION SHOULD BE USED TO MORE ACCURATELY DEFINE THE NATURE OF THE REVENUE.

Under Montana Law, every pilot and airplane in the State should be registered annually. In the past, there has been no attempt made to determine that all planes and pilots are properly registered. Apparently, because the fee to register is currently only \$1.00, it has not been considered necessary to undertake such a program.

RECOMMENDATION:

WE RECOMMEND THAT AN ATTEMPT BE MADE TO REGISTER ALL PILOTS AND AIRPLANES IN THE STATE. ASSISTANCE IN DOING THIS COULD POSSIBLY BE OBTAINED FROM THE FUEL OUTLETS AT THE VARIOUS AIRPORTS IN THE STATE. ALSO, A LIST OF THE PILOTS LICENSED IN THE STATE COULD BE OBTAINED FROM THE FEDERAL

LICENSING AUTHORITY AND NOTICES COULD THEN BE SENT OUT TO
ALL PILOTS.

Currently, when the audit of the Local Government Unit is completed, the auditor in charge makes out a statement in duplicate, issues one copy to the municipality being audited and sends the other copy back to the Local Government Services Division, together with the completed audit report. When the Local Government Services Division receives the statement, they send it to the Centralized Services Division. However, often the payment is received by the Centralized Services Division before the statement is received. Apparently, this is mainly because the auditors do not always send the copy of the statement to their division at the same time it is issued for payment.

RECOMMENDATION:

WE RECOMMEND THAT A PROCEDURE BE ADOPTED TO ASSURE
THAT THE DUPLICATE COPY OF THE STATEMENT IS SENT TO LOCAL
SERVICES DIVISION AT THE SAME TIME IT IS PRESENTED TO THE
UNIT BEING AUDITED.

When an audit report of a Local Government Unit is sent to the Local Government Services Division by the Field Auditor, the date of completion, the period audited and name of auditor is entered in a log which lists each county, city, school district and fire district in the State. However, the amount billed is not listed at this time and there are no control procedures set up to assure that Centralized Services receives the statement issued for the auditing services.

RECOMMENDATION:

WE RECOMMEND THAT AS EACH STATEMENT IS RECEIVED FROM

THE FIELD AUDITORS, A LIST BE PREPARED SHOWING THE DATE THE AUDIT WAS COMPLETED, THE NATURE OF THE EXAMINATION, THE NAME OF THE GOVERNMENT UNIT AUDITED, AND THE AMOUNT BILLED. THE STATEMENT SHOULD THEN BE FORWARDED TO THE CENTRALIZED SERVICES DIVISION. AT THE END OF EACH MONTH, A COPY OF THIS LIST SHOULD BE SENT TO CENTRALIZED SERVICES TO ASSURE THAT THEY HAVE RECEIVED ALL THE STATEMENTS RENDERED DURING THE MONTH.

The Local Government Services Division has the responsibility of auditing every county, city and town in the State on an annual basis, and the audit should be started within twelve months after the year-end. Currently, because of the limited staff and the volume of audits to be performed, they are not able to do all audits on a timely basis. Also, the period that is audited is not always the fiscal year of the Government Unit. Each audit is started at the date the last audit ended and normally extends right up to the time they are doing the audit. For instance, they may audit a period of thirty months not necessarily ending the same date as the fiscal year-end of the Unit being audited.

RECOMMENDATION:

WE RECOMMEND THAT ALL AUDITS COVER THE FISCAL YEAR OF THE AGENCY BEING AUDITED AND THAT THE AUDIT STAFF BE ENLARGED OR SOME OF THE AUDITS BE CONTRACTED OUT IN ORDER TO COMPLY WITH THE RESPONSIBILITY OF CONDUCTING AUDITS ON AN ANNUAL BASIS. IN ORDER TO CONDUCT A MORE EFFECTIVE AUDIT, THE AUDIT SHOULD BE COMPLETED WITHIN TWELVE MONTHS AFTER THE FISCAL YEAR-END OF THE GOVERNMENT UNIT BEING AUDITED. IT SHOULD BE NOTED THAT EFFECTIVE

FOR THE YEAR BEGINNING JULY 1, 1976, INDEPENDENT PUBLIC ACCOUNTANTS CAN BE CONTRACTED TO AUDIT THESE AGENCIES IF THE CONSENT OF THE AGENCY BEING AUDITED IS OBTAINED.

EXPENDITURES

The total support expenditures for the Department of Community Affairs for the year ended June 30, 1976 was \$9,968,943, of which \$3,282,048 was used for the administration of the various programs within the Department. \$6,686,895 represents disbursements of monies from State and Federal Grants to local agencies, counties, cities and other special interest groups. We found the control for disbursements of Federal and State Grants to be sufficient and the documentation in support of these expenditures appeared to be in very good order.

Internal Control over the \$3,282,048 used to administer the various programs of the Department appeared to be adequate, except for weaknesses found in a few areas.

In reviewing procedures related to purchasing materials and supplies, we found the use of Receiving Reports to be inadequate. When invoices for material and supply purchases are presented for payment, there is no indication that the items were actually received. We did find that in some cases, Receiving Reports were used, however, the report was kept by the person responsible for receiving the merchandise. The person responsible for authorizing payment has no way of knowing that all the goods being paid for were received.

RECOMMENDATION:

WE RECOMMEND THAT WHEN MATERIALS AND SUPPLY PURCHASES ARE MADE, A RECEIVING REPORT, PROPERLY CHECKED AND INITIALED BY A PERSON RESPONSIBLE FOR RECEIVING MERCHANDISE, BE ATTACHED

TO THE INVOICE WHEN PRESENTED FOR PAYMENT, AND THAT THESE REPORTS BE INCLUDED AS A PART OF THE CLAIMS PACKAGE.

While reviewing expenditure authorizations, we found in several instances, that although purchases were initiated by a proper purchase order, when the invoice was presented for payment, it did not have a signature on it approving payment. We believe that all invoices submitted for payment, even though the purchase order was properly authorized, should also be properly approved for payment by the person responsible.

RECOMMENDATION:

WE RECOMMEND THAT ALL INVOICES SUBMITTED FOR PAYMENT BE SIGNED FOR APPROVAL BY THE INDIVIDUAL RESPONSIBLE FOR THE PURCHASE. WE ALSO RECOMMEND THAT CENTRALIZED SERVICES DIVISION MAINTAIN AN UP-TO-DATE LIST OF THE SIGNATURES OF ALL THOSE PERSONS AUTHORIZED TO APPROVE EXPENDITURES.

State law requires that when an expenditure is made in excess of \$150,00, a purchase order is required. However, invoices for the use of rental aircraft which amount to approximately \$5,500 per month, are submitted and paid monthly, and no purchase order is used.

RECOMMENDATION:

WE RECOMMEND THAT PURCHASE ORDERS BE USED FOR THE PAYMENT OF RENT ON ALL AIRCRAFT LEASED BY THE DEPARTMENT.

Currently, transportation purchase orders are not required when State-owned or leased planes are used by State Agencies. The use of State-owned or rented aircraft is normally arranged by a telephone call, and therefore, authorization is not evident. The above-mentioned situation indicates a definite weakness in internal control and we believe procedures should be

set up to correct this weakness and insure the proper safeguarding of the assets of the State of Montana.

RECOMMENDATION:

WE RECOMMEND THAT TRANSPORTATION PURCHASE ORDERS, SUCH AS THOSE USED FOR COMMERCIAL FLIGHTS, ALSO BE USED WHEN A REQUEST IS MADE TO USE AIRCRAFT MAINTAINED BY THE STATE. THE TRANSPORTATION PURCHASE ORDER SHOULD BE PREPARED IN TRIPLICATE BY THE AGENCY REQUESTING THE USE OF THE AIRCRAFT. IT SHOULD HAVE A COMPLETE EXPLANATION OF THE PURPOSE OF THE FLIGHT AND SHOULD HAVE A SIGNATURE SHOWING PROPER AUTHORIZATION. ONE COPY OF THE TRANSPORTATION PURCHASE ORDER SHOULD GO TO THE AERONAUTICS DIVISION, ONE TO THE CENTRALIZED SERVICES DIVISION, AND THE OTHER SHOULD BE RETAINED BY THE AGENCY REQUESTING THE USE OF THE AIRCRAFT. AT THE END OF THE MONTH WHEN THE AERONAUTICS DIVISION SENDS THE AIRCRAFT CHARGED TO THE CENTRALIZED SERVICES DIVISION, THE RELATED TRANSPORTATION PURCHASE ORDER SHOULD BE ATTACHED TO THE INVOICE. ALSO, WHEN THE NO-WARRANT TRANSFER IS THEN PREPARED, THE APPLICABLE TRANSPORTATION PURCHASE ORDER SHOULD BE ATTACHED TO SUPPORT THE NO-WARRANT TRANSFER.

PAYROLL

When new employees are hired, payroll information is placed on a formal status report by a wage and salary administration clerk. Changes in salary rates, personnel transfers and terminations are also handled by this clerk. Preparation of employee W-4 forms, decedent warrants, health insurance enrollment and other detailed personnel information is the responsibility of management in each division.

Bi-weekly payroll reports are prepared for all divisions on a pre-programmed payroll form and payroll warrants are prepared by the central payroll system. Gross pay is then reviewed and approved by an appropriate supervisor and the payroll warrants are sent to the division offices for distribution. Unclaimed warrants are returned to the Centralized Services Division where they are placed in a safe until claimed.

RECOMMENDATION:

WE RECOMMEND THAT ALL PERSONNEL FILES BE REVIEWED TO DETERMINE THAT ALL EMPLOYEE INFORMATION IS COMPLETE AND UP-TO-DATE. WE FOUND, FOR INSTANCE, THAT NOT ALL EMPLOYEES HAD A SIGNED W-4 FORM ON FILE AND VERY FEW HAD DECEDENT WARRANTS. EACH PERSONNEL FILE SHOULD ALSO CONTAIN A STANDARD FORM SHOWING SUCH THINGS AS INITIAL PAY PLAN PLACEMENT, APPROPRIATION AND PROGRAM CHARGED, MERIT STEP INCREASES AND POSITION CHANGES.

EMPLOYEE LEAVE

In most instances, we found that employees are not required to prepare a written request for leave. Procedures used are informal, normally initiated by a verbal request to the employee's supervisor, followed by the noting of the leave request on a year book calendar.

Although a computerized system is used to record all pertinent information necessary to keep track of all sick and annual leave, there are no records kept related to emergency leave.

RECOMMENDATION

WE RECOMMEND THAT WRITTEN FORMAL LEAVE REQUEST FORMS

BE REQUIRED FOR ALL LEAVE TAKEN. THE STANDARD FORM P-1
DESIGNED BY THE STATE, SHOULD BE USED FOR THIS PURPOSE.

An accrual is not recorded for vacation and sick pay earned by permanent employees of the Department. Vacation may be accumulated up to a maximum of two years as of the end of a calendar year. Sick pay earned has no limitation on the amount accumulated. Upon termination of employment a cash payment is made out of current year funds for 100% of vacation pay accumulated and for 25% of sick pay at current rates.

RECOMMENDATION:

WE RECOMMEND THAT A PROCEDURE BE ESTABLISHED TO ALLOW
FOR THE APPROPRIATION OF FUNDS NEEDED TO HANDLE THE CONTINGENT
LIABILITY RESULTING FROM THE ACCUMULATION OF SICK AND ANNUAL
LEAVE.

FEDERAL GRANTS

The Department enters into grants with various Federal Agencies. Much of the money received is passed through to individuals, Local Government, or other State Agencies. Other grants are used in-house by the Department for planning or research studies as may be required by the various contracts.

Through our review of the grants, we were able to determine that the Department has complied with the terms of the Grant contracts.

RECOMMENDATION:

WE RECOMMEND THAT CENTRALIZED SERVICES DIVISION PREPARE
ALL FINANCIAL REPORTS AS REQUIRED BY THE CONTRACT AND WHICH
MUST BE APPROVED BY THE PROJECT DIRECTOR.

RECOMMENDATION:

WE RECOMMEND THAT A SUBSIDIARY LEDGER BE MAINTAINED FOR
ALL CONTRACTS, RECORDING SUCH ITEMS AS GRANTEE'S NAME, CONTRACT
AMOUNT, CONTRACT NUMBER, REPORTING REQUIREMENTS, CASH RECEIVED,
AND CASH EXPENDED.

RECOMMENDATION:

WE RECOMMEND THAT SUBSIDIARY RECORDS AND REPORTS TO GRANTEES BE RECONCILED TO THE STATEWIDE BUDGET AND ACCOUNTING SYSTEM REPORTS ON A MONTHLY BASIS.

LEASES

We reviewed all lease agreements that the Department has entered into. We determined that all leases were proper and rates appeared reasonable.

INSURANCE

Insurance coverage is handled by the State of Montana through coverage arranged by the Department of Administration. Insurance coverage on assets controlled by the Department of Community Affairs appeared to be adequate.

COAL TAX ALLOCATION AND EXPENDITURES

The 1975 Legislature enacted laws calling for a severance tax of approximately 30% of value on surface and 4% on underground mining on coal mined in the State. This money is to be spent on various functions of Government including the general fund (40% of total collection), the Local Area Impact (due to coal related increased activities) and the Education Trust Fund.

The Local Area Impact amount is 7/11's of 27½% of all tax collected. Counties, towns, school districts and other Government Units may receive aid, upon approved request, if they have had an increase in population of 10% or more in any three years since 1972, or if there are other problems caused by coal production. The recipients must also demonstrate that they are attempting other avenues of self-help such as "proper" tax rate or revenue bonds, etc. To date \$132,379 has been expended and over \$9.8 million of the estimated \$10.5 million for the biennium has been allocated to the upgrading of elementary and high schools, water and sewer treatment facilities and capital improvements.

By 1980 it is estimated that the coal tax will be \$100 million per year, up from \$22.9 million received for this fiscal year. Unexpended funds of the Coal Board are invested in short-term investments and the inviolate Education Trust Fund money is invested in long-term investments.

A Referendum to amend the constitution to place 25% of the Coal Tax, until December 31, 1979, and 50% thereafter, into an inviolate trust is to be on the November, 1976 ballot. Earnings and interest from this trust may be appropriated.

COMPLIANCE

During the course of our audit of the Department of Community Affairs, a review was made to determine that the Department is properly complying with the laws, regulation and administrative directives of the State of Montana. In order to properly complete this portion of our audit, we first made a review of the publications setting forth in detail the laws, regulations and directives pertaining to the Department of Community Affairs. Included in the items reviewed were the following:

1. Statutes of the Revised Codes of Montana related to the creation of the Department and its primary functions and duties.
2. Annual reports to the Governor and the Governor's Executive Budget.
3. Montana Administrative Code, Title 22, related to the Department of Community Affairs.
4. Management memos in Volumes 1 and 2 of the Montana Administrative Manual.
5. Items shown on Listing of Primary Statutes and Regulations involved in most audit engagements obtained from the Office of the Legislative Auditor.

After we had become familiar with the general statutes and ordinances

applicable to the Department of Community Affairs, a general review was made to determine the Department was complying properly. As a part of this review, we made a determination that the budget for the year ended June 30, 1976 was properly adhered to. Also, while conducting all other phases of our audit, we looked for problem areas related to compliance.

While we found the Department of Community Affairs to generally be in compliance with the laws, statutes and administrative directives of the State of Montana, we believe the following recommendations are worthy of consideration:

RECOMMENDATION:

WE RECOMMEND THAT A REVIEW BE MADE OF THE DUTIES OF THE AUDIT BUREAU OF THE LOCAL GOVERNMENT SERVICES DIVISION. SECTION 82-4502 OF THE REVISED STATUTES OF MONTANA STATES THAT THE BOOKS AND ACCOUNTS OF ALL COUNTIES AND INCORPORATED CITIES AND TOWNS SHALL BE EXAMINED ANNUALLY. IN ORDER FOR THE AUDIT TO BE CONDUCTED PROPERLY, IT SHOULD BE INITIATED NO LATER THAN ONE YEAR FROM THE CLOSE OF THE PERIOD BEING AUDITED. APPARENTLY, BECAUSE OF THE LACK OF AUDIT PERSONNEL, THESE AUDITS HAVE NOT BEEN INITIATED AND COMPLETED ON A TIMELY BASIS.

It should be noted that effective for the year beginning July 1, 1976, new laws have come into effect which will allow the Department to engage public accountants to perform these annual audits. This can only be done, however, with the consent of the respective Local Government Entity. Reviews should be made in the future to determine whether or not these new laws have remedied the present situation.

RECOMMENDATION:

WE RECOMMEND THAT THE RECORDS KEPT BY THE DEPARTMENT RELATED TO PROPERTY MANAGEMENT, BE EXPANDED AND BROUGHT UP-TO-DATE IN ACCORDANCE WITH MANAGEMENT MEMORANDUM 70-17.

ALTHOUGH RECORDS ARE KEPT RELATED TO OFFICE EQUIPMENT AND FURNITURE, WHEN ITEMS ARE REASSIGNED TO NEW OR DIFFERENT PERSONNEL, OR WHEN AN ITEM BECOMES UNASSIGNED, FOR INSTANCE, WHEN AN EMPLOYEE LEAVES, THE RELATED RECORDS ARE NOT ALWAYS PROPERLY ADJUSTED. WHILE THERE ARE DETAILED RECORDS REGARDING OFFICE EQUIPMENT AND FURNITURE, THERE ARE NO CONTROL RECORDS FOR MAJOR ASSETS OWNED BY THE DEPARTMENT, SUCH AS AIRPLANES AND FIRE PROTECTION VEHICLES.

RECOMMENDATION:

WE RECOMMEND THAT THE DEPARTMENT USE THE STANDARD REQUEST FOR A LEAVE OF ABSENCE FORM AS SHOWN IN SECTION 1-0304.81 OF THE MONTANA ADMINISTRATIVE MANUAL. WHILE MOST ABSENCES ARE PROPERLY APPROVED, THE DEPARTMENT IS NOT FOLLOWING THE PROPER PROCEDURES SET FORTH BY THE STATE OF MONTANA.

RECOMMENDATION:

WE RECOMMEND THAT THE MONTANA ADMINISTRATIVE CODE BE UPDATED AND EXPANDED. ALTHOUGH THE GENERAL ORGANIZATION RULE RELATED TO THE DEPARTMENT OF COMMUNITY AFFAIRS, AS SET FORTH IN TITLE 22 OF THE CODE IS COMPLETE, CONSIDERATION SHOULD BE GIVEN TO EXPANDING THE CODE SO THAT THERE IS A SEPARATE CHAPTER SETTING FORTH IN DETAIL THE LAWS, STATUTES AND PROCEDURAL REQUIREMENTS APPLICABLE TO EACH DIVISION WITHIN THE DEPARTMENT. THE ONLY CHAPTER RELATED TO A SPECIFIC DIVISION WHICH IS NOW A PART OF THE CODE SETS FORTH PROVISIONS AND REQUIREMENTS APPLICABLE TO THE PLANNING AND ECONOMIC DEVELOPMENT DIVISION. HOWEVER, THIS CHAPTER IS CURRENTLY OBSOLETE, SINCE THIS DIVISION IS NOW

BROKEN DOWN INTO TWO DIVISIONS, THE ECONOMIC DEVELOPMENT
DIVISION AND THE PLANNING DIVISION.

As set forth in the Montana Administrative Procedure Act, the purpose
of the Montana Administrative Code should set forth the uniform rules and
procedures for all State Administrative Agencies.

RECOMMENDATION:

WE RECOMMEND THAT ALL STATE AGENCIES BE CHARGED FOR USING
STATE AIRPLANES ON A CURRENT BASIS. AT THE PRESENT TIME, THE
GOVERNOR'S OFFICE IS NOT BEING CHARGED ON A TIMELY BASIS WHEN
THE GOVERNOR USES STATE AIRPLANES. THIS IS NOT IN ACCORDANCE
WITH SECTION 1-1102 OF THE REVISED CODES OF MONTANA.

RECOMMENDATIONS FROM PRIOR REPORTS

<u>RECOMMENDATIONS</u>	<u>Implemented</u>	<u>Not Implemented</u>
Audit of records related to the Department of Housing and Urban Development for the year ended September 30, 1973 by the Office of Inspector General, Region VII.		
1. Recommendation to improve documentation related to allocation of costs of services provided by area planning offices.	x	
2. Recommendation to improve budgetary and administrative controls needed over services provided by municipalities and other public agencies.	x	

RECOMMENDATIONS

Audit of Montana Highway Traffic Safety Division operations for the year ended June 30, 1975 by the National Highway Traffic Safety Administration.

- | | |
|--|---|
| 1. Recommendation to improve documentation necessary to support project monitoring. | x |
| 2. Recommendation to improve records and controls related to property management. | x |
| 3. Recommendation to reconcile project records with accounting records in order to provide a better overall control over highway safety funds. | x |

FINANCIAL STATEMENTS

STATE OF MONTANA
DEPARTMENT OF COMMUNITY AFFAIRS

Combined Balance Sheet
June 30, 1976

ASSETS	General Fund	Earmarked Revenue Fund	Federal & Private Revenue Fund	Federal & Private Grant Clearance Fund	Revolving Fund	Education Trust Fund
Cash on hand		\$ 175	\$ 25			
Cash in Revolving Fund		2,000	8,000			
Cash in Treasury	\$ 2,500	610,738	429,310	\$227,207	\$64,714	\$ 53,785
Accounts receivable - Other		1,718	1,052		13	
Available for Accrued Support Expenditures	33,553					
Short Term Investment Pool - Principal		3,697,422				2,172,243
Short Term Investment Pool - Interest purchased		5,454				1,765
Total Assets	<u>\$36,053</u>	<u>\$4,317,507</u>	<u>\$438,387</u>	<u>\$227,207</u>	<u>\$64,727</u>	<u>\$2,227,793</u>
LIABILITIES AND FUND BALANCES						
Accrued support expenditures	\$33,553	\$ 32,278	\$ 53,398			
Accounts payable				\$ 89,000		
Dishonored checks		26				
Reserve for deferred accounts receivable		1,292	20			
Fund balance - Exhibit "B"	<u>2,500</u>	<u>4,283,911</u>	<u>384,969</u>	<u>138,207</u>	<u>\$64,727</u>	<u>\$2,227,793</u>
Total Liabilities and Fund Balances	<u>\$36,053</u>	<u>\$4,317,507</u>	<u>\$438,387</u>	<u>\$227,207</u>	<u>\$64,727</u>	<u>\$2,227,793</u>

See Accompanying Notes to Financial Statements

STATE OF MONTANA
DEPARTMENT OF COMMUNITY AFFAIRS
EARMARKED REVENUE FUND

Balance Sheet
June 30, 1976

ASSETS	Planning & Economic Development Publications	Highway	Aeronautics Commission	County Land Planning	Local Impact Trust	Total All Accounts
Cash on hand			\$ 175			\$ 175
Cash in Revolving Fund			2,000			2,000
Cash in Treasury	\$8,118		578,824		\$ 23,796	610,738
Accounts receivable - Other	5		1,713			1,718
Short Term Investment Pool - Principal					3,697,422	3,697,422
Short Term Investment Pool - Interest purchased					5,454	5,454
Total Assets	<u>\$8,123</u>	<u>-0-</u>	<u>\$582,712</u>	<u>-0-</u>	<u>\$3,726,672</u>	<u>\$4,317,507</u>
<u>LIABILITIES AND FUND BALANCES</u>						
Accrued support expenditures	\$3,500		\$ 26,378		\$ 2,400	\$ 32,278
Dishonored checks			26			26
Reserve for deferred accounts receivable			1,292			1,292
Fund balance - Exhibit "B-1"	<u>4,623</u>		<u>555,016</u>		<u>3,724,272</u>	<u>4,283,911</u>
	<u>\$8,123</u>	<u>-0-</u>	<u>\$582,712</u>	<u>-0-</u>	<u>\$3,726,672</u>	<u>\$4,317,507</u>

See Accompanying Notes to Financial Statements

STATE OF MONTANA
DEPARTMENT OF COMMUNITY AFFAIRS
FEDERAL & PRIVATE REVENUE FUND

Balance Sheet
June 30, 1976

ASSETS	Planning & Economic Development	Local Government Assistance	Traffic Safety Coordinator	O E O Coordinator	I G R/ Municipal Regulations	Aeronautics Commission	Total All Accounts
Cash on hand				\$ 25			\$ 25
Cash in Revolving Fund	\$ 2,500		\$ 1,000	4,500			8,000
Cash in Treasury	129,113	\$124,888	27,454	75,776	\$ 88	\$71,991	429,310
Accounts receivable- Other	448			604			1,052
Total Assets	<u>\$132,061</u>	<u>\$124,888</u>	<u>\$28,454</u>	<u>\$80,905</u>	<u>\$ 88</u>	<u>\$71,991</u>	<u>\$438,387</u>
LIABILITIES AND FUND BALANCES							
Accrued support ex- penditures	\$ 26,751		\$10,718	\$15,929			\$ 53,398
Reserve for deferred accounts receivable				20			20
Fund balance - Exhibit "B-2"	105,310	\$124,888	17,736	64,956	\$ 88	\$71,991	384,969
Total Liabilities and Fund Balance	<u>\$132,061</u>	<u>\$124,888</u>	<u>\$28,454</u>	<u>\$80,905</u>	<u>\$ 88</u>	<u>\$71,991</u>	<u>\$438,387</u>

See Accompanying Notes to Financial Statements

STATE OF MONTANA
DEPARTMENT OF COMMUNITY AFFAIRS
FEDERAL AND PRIVATE GRANT CLEARANCE

Balance Sheet
June 30, 1976

<u>ASSETS</u>	Montana Highway Traffic Safety Director	Human Resources Division	Urban Planning	Total All Accounts
Cash in Treasury	\$6,005	\$ 174,686	\$ 46,516	\$227,207
Total Assets	<u>\$6,005</u>	<u>\$ 174,686</u>	<u>\$ 46,516</u>	<u>\$227,207</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Accounts payable	\$ 89,000			\$ 89,000
Fund balance - Exhibit "B-3"	<u>\$6,005</u>	<u>85,686</u>	<u>\$ 46,516</u>	<u>138,207</u>
Total Liabilities and Fund Balance	<u>\$6,005</u>	<u>\$ 174,686</u>	<u>\$ 46,516</u>	<u>\$227,207</u>

See Accompanying Notes to Financial Statements

STATE OF MONTANA
DEPARTMENT OF COMMUNITY AFFAIRS
REVOLVING FUND

Balance Sheet
June 30, 1976

	Department of Planning File Management System	IGR/Aeronautics Capital Equipment Replacement	Total All Accounts
<u>ASSETS</u>			
Cash in Treasury	\$14,593	\$50,121	\$ 64,714
Accounts receivable - Other	<u>13</u>		<u>13</u>
Total Assets	<u>\$14,606</u>	<u>\$50,121</u>	<u>\$ 64,727</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Fund balance - Exhibit "B-4"	<u>\$14,606</u>	<u>\$50,121</u>	<u>\$ 64,727</u>
Total Liabilities and Fund Balance	<u>\$14,606</u>	<u>\$50,121</u>	<u>\$ 64,727</u>

STATE OF MONTANA
DEPARTMENT OF COMMUNITY AFFAIRS

COMBINED STATEMENT OF CHANGES IN FUND BALANCE
Year Ended June 30, 1966

	General Fund	Earmarked Revenue Fund	Federal & Private Revenue Fund	Federal & Private Grant Clearance Fund	Revolving Fund	Education Trust Fund
Fund balance, July 1, 1975	(\$ 11,300)	\$ 583,055	\$ 327,673	\$ 41,131	\$ 109,575	-0-
Additions:						
Receipts						
Revenue - Exhibit C	177,063	150,107	1,377,665	2,692,600	10,572	\$ 24,612
Income - Exhibit D	2	199,038	569,346	2,194,924	36,205	
Appropriation for operating purposes	1,813,502	4,548,610	100,345			2,203,181
Prior year revenue adjustment		82,250				
Prior year income adjustment						
Total Additions and Balance	1,979,267	5,563,060	2,375,039	4,928,655	156,352	2,227,793
Deductions:						
Program expenditures-Exhibit F	1,970,731	1,265,746	1,932,643	4,790,448	9,375	
Prior year expenditure adjustment	6,036	13,403	57,417		82,250	
Prior year income adjustment						
Total Deductions	1,976,767	1,279,149	1,990,060	4,790,448	91,625	-0-
Fund Balance, June 30, 1976	\$ 2,500	\$4,283,911	\$ 384,969	\$ 138,207	\$ 64,727	\$2,227,793

See Accompanying Notes to Financial Statements

STATE OF MONTANA
DEPARTMENT OF COMMUNITY AFFAIRS
EARMARKED REVENUE FUND

STATEMENT OF CHANGES IN FUND BALANCE
Year Ended June 30, 1976

	Planning & Economic Development Publications	Highway	Aeronautics Commission	County Land Planning	Local Impact Trust	Total All Accounts
Fund Balance, July 1, 1975	\$7,403	(\$ 593)	\$ 576,245	-0-		\$ 583,055
Additions:						
Receipts	720		107,270		\$ 42,117	150,107
Revenue - Exhibit C			199,038			199,038
Income - Exhibit D						
Appropriation for operating purposes		117,046	355,679	\$220,318	3,855,567	4,548,610
Prior year income adjustment			82,250			82,250
Total Additions and Balance	8,123	116,453	1,320,482	220,318	3,897,684	5,563,060
Deductions:						
Program expenditures - Exhibit F	3,500	116,498	752,018	220,318	173,412	1,265,746
Prior year expenditures adjustment		(45)	13,448			13,403
Total Deductions	3,500	116,453	765,466	220,318	173,412	1,279,149
Fund Balance, June 30, 1976	\$4,623	-0-	\$ 555,016	-0-	\$3,724,272	\$4,283,911

See Accompanying Notes to Financial Statements

STATE OF MONTANA
DEPARTMENT OF COMMUNITY AFFAIRS
FEDERAL AND PRIVATE REVENUE FUND

STATEMENT OF CHANGES IN FUND BALANCE
Year Ended June 30, 1976

	Planning Economic Development	Local Government Assistance	Traffic Safety Coordinator	O E O Coordinator	IGR/ Municipal Regulations	Aeronautics Commission	Total All Accounts
Fund Balance, July 1, 1975	\$ 99,598	-0-	(\$ 8,444)	\$303,219	\$ 88	(\$ 66,788)	\$ 327,673
Additions:							
Receipts							
Revenue-Exhibit C	396,725	\$650,000		237,689		93,251	1,377,665
Income -Exhibit D	78,648		244,962	245,736			569,346
Prior year revenue adjustment						100,345	100,345
Total Additions and Balance	574,971	650,000	236,518	786,644	88	126,808	2,375,029
Deductions:							
Program expenditures - Schedule F	465,608	525,112	217,417	724,506			1,932,643
Prior year expenditures adjustment	4,053		1,365	(2,818)		54,817	57,417
Total Deductions	469,661	525,112	218,782	721,688	0	54,817	1,990,060
Fund Balance, June 30, 1976	\$105,310	\$124,888	\$ 17,736	\$ 64,956	\$ 88	\$ 71,991	\$ 384,969

See Accompanying Notes to Financial Statements

STATE OF MONTANA
DEPARTMENT OF COMMUNITY AFFAIRS
FEDERAL AND PRIVATE GRANT CLEARANCE

STATEMENT OF CHANGES IN FUND BALANCE
Year Ended June 30, 1976

	Montana Highway Traffic Safety Director	Human Resources Division	Urban Planning	Total All Accounts
Fund Balance, July 1, 1975	-0-	-0-	\$ 41,131	\$ 41,131
Additions:				
Receipts				
Revenue - Exhibit C	\$544,424	\$1,651,754	496,422	2,692,600
Income - Exhibit D		<u>2,194,924</u>		<u>2,194,924</u>
Total Additions and Balance	<u>544,424</u>	<u>3,846,678</u>	<u>537,553</u>	<u>4,928,655</u>
Deductions:				
Program expenditures - Exhibit F	<u>538,419</u>	<u>3,760,992</u>	<u>491,037</u>	<u>4,790,448</u>
Total Deductions	<u>538,419</u>	<u>3,760,992</u>	<u>491,037</u>	<u>4,790,448</u>
Fund Balance, June 30, 1976	<u>\$ 6,005</u>	<u>\$ 85,686</u>	<u>\$ 46,516</u>	<u>\$ 138,207</u>

See Accompanying Notes to Financial Statements

STATE OF MONTANA
DEPARTMENT OF COMMUNITY AFFAIRS
REVOLVING FUND

STATEMENT OF CHANGES IN FUND BALANCE
Year Ended June 30, 1976

	Department of Planning File Management System	IGR/Aeronautics Capital Equipment Replacement	Total All Accounts
Fund Balance, July 1, 1974	\$13,409	\$ 96,166	\$109,575
Additions:			
Receipts			
Revenue - Exhibit C	10,572		10,572
Income - Exhibit D		<u>36,205</u>	<u>36,205</u>
Total Additions and Balance	<u>23,981</u>	<u>132,371</u>	<u>156,352</u>
Deductions:			
Program expenditures - Exhibit F	9,375		9,375
Prior year income adjustment		<u>82,250</u>	<u>82,250</u>
Total Deductions	<u>9,375</u>	<u>82,250</u>	<u>91,625</u>
Fund Balance, June 30, 1976	<u>\$14,606</u>	<u>\$50,121</u>	<u>\$ 64,727</u>

See Accompanying Notes to Financial Statements

STATE OF MONTANA
DEPARTMENT OF COMMUNITY AFFAIRS

STATEMENT OF REVENUE, BUDGET AND ACTUAL
Year Ended June 30, 1976

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
<u>General Fund</u>			
Service fee	\$ 185,000	\$ 177,026	(\$ 7,974)
Reimbursement		37	37
Total General Fund	<u>\$ 185,000</u>	<u>\$ 177,063</u>	<u>(\$ 7,937)</u>
<u>Earmarked Revenue Fund</u>			
Planning and Economic Development:			
Sale of Documents		\$ 720	\$ 720
Aeronautics Commission:			
Licenses & permits - Aviation	\$ 5,000	\$ 6,976	\$ 1,976
Investment earnings	9,000	14,168	5,168
Reimbursements - Federal	10,000	10,044	44
Sale of documents		6,530	6,530
Sale of merchandise		6,944	6,944
Rentals	90,000	62,528	(27,472)
Leases		80	80
	<u>114,000</u>	<u>107,270</u>	<u>(6,730)</u>
Local Impact Trust:			
Short term investment pool		42,117	42,117
Total Earmark Revenue Fund	<u>\$ 114,000</u>	<u>\$ 150,107</u>	<u>\$ 36,107</u>
<u>Federal and Private Revenue Fund</u>			
Planning and Economic Development:			
Service fees		\$ 2,449	\$ 2,449
Reimbursements		15,979	15,979
Federal Grants	\$ 544,950	378,297	(166,653)
	<u>544,950</u>	<u>396,725</u>	<u>(148,225)</u>
Local Government Assistance:			
Federal Grants	<u>400,000</u>	<u>650,000</u>	<u>250,000</u>
O E O Coordinator:			
Federal Grants	<u>1,088,833</u>	<u>237,689</u>	<u>(851,144)</u>
Aeronautics Commission:			
Federal Grants	<u>630,355</u>	<u>93,251</u>	<u>(537,104)</u>
Total Federal and Private Revenue Fund	<u>\$2,664,138</u>	<u>\$1,377,655</u>	<u>(\$1,286,473)</u>

See accompanying Notes to Financial Statements

STATE OF MONTANA
DEPARTMENT OF COMMUNITY AFFAIRS

STATEMENT OF REVENUE, BUDGET AND ACTUAL - CONTINUED
Year Ended June 30, 1976

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
<u>Federal and Private Grant Clearance</u>			
Montana Highway Traffic Safety Director:			
Federal Grants	\$ 750,000	\$ 544,424	(\$ 205,576)
Human Resources Division:			
Federal Grants	800,000	1,651,754	851,754
Urban Planning:			
Federal Grants	333,112	496,422	163,310
Total Federal and Private Revenue Fund	<u>\$1,883,112</u>	<u>\$2,692,600</u>	<u>\$ 809,488</u>
<u>Revolving Fund</u>			
Department of Planning File Management System:			
Sale of documents		\$ 10,572	\$ 10,572
Total Revolving Fund		<u>\$ 10,572</u>	<u>\$ 10,572</u>
<u>Education Trust Fund</u>			
Short term investment pool		\$ 24,612	\$ 24,612
Total Education Trust Fund		<u>\$ 24,612</u>	<u>\$ 24,612</u>

See Accompanying Notes to Financial Statements

STATE OF MONTANA
DEPARTMENT OF COMMUNITY AFFAIRS

STATEMENT OF INCOME, BUDGET AND ACTUAL
Year Ended June 30, 1976

	Budget	Actual	Over (Under) Budget
<u>General Fund</u>			
Miscellaneous		\$ 2	\$ 2
Total General Fund		<u>\$ 2</u>	<u>2</u>
<u>Earmarked Revenue Fund</u>			
Aeronautics Commission:			
Miscellaneous - Air Transportation Services		\$ 75,024	\$ 75,024
Miscellaneous - Grant Repayments	\$ 190,000	124,014	(65,986)
Total Earmarked Revenue Fund	<u>\$ 190,000</u>	<u>\$ 199,038</u>	<u>\$ 9,038</u>
<u>Federal and Private Revenue Fund</u>			
Planning and Economic Development:			
Federal Grants	\$ 48,648	\$ 78,648	\$ 30,000
Traffic Safety Coordinator			
Income Transfers	\$ 215,000	\$ 244,962	\$ 29,962
OEO Coordinator			
Federal Grants	\$1,000,000	\$ 245,736	(\$ 754,264)
Total Federal and Private Revenue Fund	<u>\$1,263,648</u>	<u>\$ 569,346</u>	<u>(\$ 694,302)</u>
<u>Federal and Private Grant Clearance</u>			
Human Resources Division:			
Federal Grants	\$2,000,000	\$2,194,924	\$ 194,924
Total Federal and Private Grant Clearance	<u>\$2,000,000</u>	<u>\$2,194,924</u>	<u>\$ 194,924</u>
<u>Revolving Fund</u>			
IGR/Aeronautics Capital, Equipment and Replacement:			
Miscellaneous - Air Transportation Services	\$ 100,000	\$ 36,205	(\$ 63,795)
Total Revolving Fund	<u>\$ 100,000</u>	<u>\$ 36,205</u>	<u>(\$ 63,795)</u>

See Accompanying Notes to Financial Statements

STATE OF MONTANA
DEPARTMENT OF COMMUNITY AFFAIRS

STATEMENT OF EXPENDITURES COMPARED WITH APPROPRIATIONS
Year Ended June 30, 1976

	Appropriation	Budget Amendments	Total Available	Expenditures	Balance
General Fund:					
Human Resources	\$ 87,782		\$ 87,782	\$ 87,745	\$ 37
Local Government Services	725,477	(\$ 2,500)	722,977	598,337	124,640
Economic Development	99,040		99,040	98,966	74
Planning	781,826		781,826	746,759	35,067
Centralized Services	160,674	2,750	163,424	163,365	59
Indian Affairs	107,895	(250)	107,645	83,413	24,232
Research and Information	137,917		137,917	119,050	18,867
Housing	73,141		73,141	73,096	45
Total	<u>\$2,173,752</u>	<u>-0-</u>	<u>\$2,173,752</u>	<u>\$1,970,731</u>	<u>\$ 203,021</u>
Earmarked Revenue Fund:					
Aeronautics	\$1,136,655(2)	(\$ 2,500)	\$1,134,155	\$ 690,448(1)	\$ 390,597
Highway Safety	41,500		41,500	41,498	2
Planning	75,000(3)	220,318	295,318	295,318	0
Centralized Services	59,123	12,500	71,623	70,093	1,530
Coal Board		3,612,234	3,612,234	164,890	3,447,344
Research and Information	3,500		3,500	3,500	0
Total	<u>\$1,315,778</u>	<u>\$3,842,552</u>	<u>\$5,158,330</u>	<u>\$1,265,747</u>	<u>\$3,839,473</u>
Federal and Private Revolving Fund:					
Aeronautics	\$ 460,355	\$ 35,478	\$ 495,833		\$ 495,833
Human Resources	2,381,968	(2,500)	2,379,468	\$ 647,064	1,732,404
Highway Safety	124,954	218,500	343,454	179,896	163,558
Economic Development	118,315	(14,033)	104,282	88,006	16,276
Planning	131,520	17,500	149,020	145,216	3,804
Centralized Services	177,420	19,750	197,170	187,222	9,948
Old West Trail Commission	96,427	14,426	110,853	75,509	35,344
Indian Affairs		6,000	6,000	4,205	1,795
Research and Information	51,407	83,430	134,837	76,335	58,502

Federal and Private Revolving Fund:

Aeronautics
Human Resources
Highway Safety
Economic Development
Planning
Centralized Services
Old West Trail Commission
Indian Affairs
Research and Information

See Accompanying Notes to Financial Statements

STATE OF MONTANA
DEPARTMENT OF COMMUNITY AFFAIRS

STATEMENT OF EXPENDITURES COMPARED WITH APPROPRIATIONS - CONTINUED
Year Ended June 30, 1976

Federal and Private Revolving Fund-Con't.	Appropriation	Budget Amendments	Total		Balance
			Available	Expenditures	
Housing	\$ 13,491	(\$ 500)	\$ 12,991	\$ 4,077	\$ 8,914
Special Projects		650,000	650,000	525,112	124,888
Total	<u>\$3,555,857</u>	<u>\$1,028,051</u>	<u>\$4,583,908</u>	<u>\$1,932,642</u>	<u>\$2,651,266</u>

(1) Does not include \$53,110 prior years expenditures.

(2) Includes \$65,000 held over from 1974. Does not include \$100,000 long range building project appropriated by House Bill 712. This amount was originally assigned to Department of Administration.

(3) Appropriation House Bill 254 set forth \$150,000 for fiscal year June 30, 1976 to be used by cities for up to half the operating deficit of a public transportation system and to counties for transportation purposes. Of this amount, \$75,000 was appropriated to this agency as aid to cities. The portion for counties was appropriated to the State Treasurer.

EXHIBIT "F"

STATE OF MONTANA
DEPARTMENT OF COMMUNITY AFFAIRSDETAIL OF PROGRAM EXPENDITURES
Year Ended June 30, 1976

Program	Aeronautics	Human Resources	Highway Traffic Safety	Local Government	Accounting & Management Systems	Economic Development	Planning	Centralized Services
Support Expenditures:								
Personal services	\$251,331	\$ 289,755	\$114,783	\$348,995	\$121,772	\$124,874	\$ 272,973	\$233,564
Contracted services	70,891	67,582	25,618	3,623	14,259	36,202	7,337	10,904
Supplies and materials	47,482	13,447	860	7,220	2,657	5,304	6,268	12,640
Communications	9,963	5,025	3,864	301	829	2,749	2,326	47,683
Travel	23,992	102,495	8,837	57,363	15,132	13,782	24,505	8,925
Rent	80,347	1,942	3,877	359	3,054	178	2,900	73,966
Utilities	6,138		43			183		8,148
Repairs and maintenance	32,807	48	119	2,306		20	184	3,963
Other	9,419	3,053	1,105	1,625	1,223	2,168	2,255	17,774
Equipment	89,357	2,775	110	9,582	8,037	1,512	427	3,113
Total Support Expenditures	621,727	486,122	159,216	431,374	166,963	186,972	319,175	420,680
Local assistance expenditures	61,852							
Grants and benefits	1,000	4,009,679	600,597				1,242,054	
Total Program Cost	\$684,579	\$4,495,801	\$759,813	\$431,374	\$166,963	\$186,972	\$1,561,229	\$420,680
Funding Sources:								
General Fund		\$ 87,745	\$ 41,498	\$431,374	\$166,963	\$ 98,966	\$ 746,759	\$163,365
Earmarked Revenue Fund	\$684,579						295,318	70,093
Federal and Private Revolving Fund		647,064	179,896			88,006	145,216	187,222
Grant Clearance		3,760,992	538,419				373,936	
Total	\$684,579	\$4,495,801	\$759,813	\$431,374	\$166,963	\$186,972	\$1,561,229	\$420,680

See Accompanying Notes to Financial Statements

STATE OF MONTANA
DEPARTMENT OF COMMUNITY AFFAIRS

DETAIL OF PROGRAM EXPENDITURES - CONTINUED
Year Ended June 30, 1976

Program	Special Projects Flood Relief	Old West Commission	Indian Affairs Coordinator	Aero Capital Outlay	Coal Board	Research & Information	Housing	Total
Support Expenditures:								
Personal services	\$ 6,681	\$ 33,966	\$68,436		\$ 19,431	\$158,762	\$63,113	\$2,108,436
Contracted services	2,916	33,489	68		359	36,751	653	310,652
Supplies and materials	300	209	1,894		641	2,831	2,600	104,353
Communications	100	280	1,407		473	1,603	616	77,219
Travel	1,750	3,713	12,218		9,858	3,784	7,246	293,600
Rent		708				1,962		169,293
Utilities								14,512
Repairs and maintenance		33				210	29	39,719
Other		111	657		22	1,802	1,136	42,350
Equipment			2,938		1,726	556	1,781	121,914
Total Support Expenditures	11,747	72,509	87,618		32,510	208,261	77,174	3,282,048
Local assistance expenditures	513,364							575,216
Grants and benefits								
Capital outlay		120,101			132,379			6,105,810
Total Program Cost	\$525,111	\$192,610	\$87,618	\$ 5,869	\$164,889	\$208,261	\$77,174	\$9,968,943
Funding Sources:								
General Fund								
Earmarked Revenue Fund			\$83,413	\$ 5,869	\$164,889	\$119,050	\$73,096	\$1,970,731
Federal and Private Revolving Fund						3,501		1,265,747
Revolving Fund	\$525,111	\$ 75,509	4,205			76,335	4,078	1,932,642
Grant Clearance		117,101				9,375		9,375
Total	\$525,111	\$192,610	\$87,618	\$ 5,869	\$164,889	\$208,261	\$77,174	\$9,968,943

See Accompanying Notes to Financial Statements

STATE OF MONTANA
DEPARTMENT OF COMMUNITY AFFAIRS

NOTES TO FINANCIAL STATEMENTS
June 30, 1976

1. Basis of Accounting

The modified accrual basis of accounting, under which expenditures are recorded when the liability is incurred and revenues are recorded when received in cash unless susceptible to accrual, is used by the Department of Community Affairs. At the end of a fiscal year, all valid obligations against an appropriation are to be accrued as expenditures as provided by law. (Montana Administrative Manual 2-0240.40)

2. Vacation and Sick Pay

An accrual is not recorded for vacation and sick pay earned by permanent employees of the department. Vacation may be accumulated to the maximum of two years as of the end of a calendar year. Sick pay earned has no limitation on the amount accumulated. Upon termination of employment a cash payment is made for 100% of vacation pay accumulated and for 25% of sick pay. The value of vacation and sick pay at June 30, 1976 was not readily determinable.

3. Retirement Plans

The Department of Community Affairs participates in the Public Employees' Retirement System which covers substantially all of the Department's employees. The Department contributes 5.75% of the employee's salary while 6% is withheld from the employees for their contribution. The cost of this plan to the Department for the year ended June 30, 1976 was \$93,088.

4. Accounts Receivable

There are several unrecorded accounts receivable which have a material effect on the financial statements. The following is a schedule of the unrecorded assets as of June 30, 1976 amounting to \$456,599.

Airports loans	\$368,537
Service fees (local government)	43,213
Research and Information System	2,342
Airport Rentals	7,866
Veteran's Administration	5,898
Accrued interest receivable	28,743
	<u>\$456,599</u>

5. Investments

The Department of Revenue collects monies on coal taxes. It is allocated by law to various accounting entities. Funds for the Department of Community Affairs are deposited into the Local Impact and Educational Trust Funds. As of June 30, 1976, \$3,697,422 has been invested in the short term

STATE OF MONTANA
DEPARTMENT OF COMMUNITY AFFAIRS

NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 1976

Investment Pool for Local Impact Funds having a market value on that date of \$3,712,945, while the investment for the Educational Trust Fund is \$2,172,243, having a market value of \$2,181,739.

6. General Fixed Assets

The Department of Community Affairs has not maintained a record of its general fixed assets. Assets purchased are recorded as expenditures in the various funds in the year of purchase.

7. Local Government Assistance

The Department of Community Affairs was advanced \$650,000 from the federal government for Flood Relief Aid. The program has been completed, and expenditures have been audited by federal auditors. Funds are to be returned to the federal government when differences between the parties are resolved. The federal government contends that \$125,828 must be returned, while the Department believes that \$124,888 should be returned. The remaining funds on hand of \$124,888 are recorded in the accounts as fund balance. The proper presentation for this would be to record the above amount as an amount due the federal government.

AGENCY REPLY



November 19, 1976

NOV 19 1976

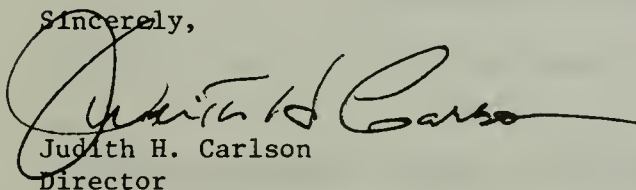
MONTANA LEGISLATIVE AUDITOR

Morris Brusett
Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, Montana 59601

Dear Mr. Brusett:

Enclosed are three copies of the audit report of the Department
of Community Affairs and one copy of our response to the
recommendations.

Sincerely,



Judith H. Carlson
Director

/njc

Enclosures

RECOMMENDATION No. 1

WE RECOMMEND THAT THE DEPARTMENT OF COMMUNITY AFFAIRS GIVE CAREFUL CONSIDERATION TO DEVELOPING A PROGRAM RELATED TO INTERNAL AUDITING WITHIN THE VARIOUS DIVISIONS OF THE DEPARTMENT. THE WORK TO BE PERFORMED BY THE INTERNAL AUDIT STAFF DOES NOT HAVE TO BE TOO EXTENSIVE TO BEGIN WITH, BUT SHOULD BE REVIEWED AND EXPANDED ON AT LEAST AN ANNUAL BASIS. INTERNAL AUDITING IS A VERY EFFECTIVE METHOD OF STRENGTHENING INTERNAL CONTROL. BECAUSE OF THE SIZE OF THE DEPARTMENT AND THE SCOPE OF ITS ACTIVITIES, THE DEPARTMENT OF COMMUNITY AFFAIRS CAN DEFINITELY JUSTIFY THE NEED FOR AN INTERNAL AUDIT FUNCTION.

RESPONSE:

We agree with the recommendation. The Department is presently considering developing a formalized system of internal auditing. This system will be reviewed periodically to determine effectiveness.

RECOMMENDATION No. 2

WE RECOMMEND THAT THE POLICY OF PAYING ALL TRAVEL REIMBURSEMENT OUT OF THE REVOLVING FUND BE REVIEWED. WHILE THE STATE DOES AUTHORIZE THAT TRAVEL ADVANCES SHOULD COME OUT OF THIS FUND WHEN NECESSARY, IT DOES NOT APPEAR THAT THIS ACCOUNT SHOULD BE USED FOR THE REIMBURSEMENT OF ALL TRAVEL EXPENSES.

RESPONSE:

We do not agree with the recommendation. The Department of Administration has reviewed periodically our use of the contingent revolving fund. Currently we have asked them for another review.

RECOMMENDATION No. 3

WE RECOMMEND THAT THE LIST OF OUTSTANDING CHECKS BE REVIEWED MONTHLY AND THAT CHECKS OVER NINETY DAYS OLD BE WRITTEN OFF. THE BANK SHOULD NOT ACCEPT CHECKS OVER NINETY DAYS OLD, HOWEVER, IF A CHECK IS REFUSED, ANOTHER CHECK CAN BE ISSUED IN ITS PLACE.

RESPONSE:

We agree with the recommendation. All outstanding checks over ninety days old will be reviewed for appropriate action.

RECOMMENDATION No. 4

WE RECOMMEND THAT RECEIPTS AND DISBURSEMENTS BE TOTALED AT LEAST MONTHLY, AND THAT THESE AMOUNTS BE USED IN COMPUTING THE RECONCILIATION OF THE ACCOUNT EACH MONTH.

RESPONSE:

We agree with the recommendation. We will begin totaling the receipts and disbursements for the contingent revolving account on a monthly basis.

RECOMMENDATION No. 5

WE RECOMMEND THAT A REGISTER BE MAINTAINED SHOWING THE NAMES OF ALL INDIVIDUALS WHO HAVE KNOWLEDGE OF COMBINATIONS OR HAVE BEEN ISSUED KEYS TO SAFES. ALSO, WHEN AN INDIVIDUAL LEAVES THE DEPARTMENT, THE COMBINATION SHOULD BE CHANGED OR A NEW LOCK AND NEW KEYS SHOULD BE OBTAINED.

RESPONSE:

We agree with the recommendation. A register of safe keys and combinations is currently being compiled.

RECOMMENDATION No. 6

WE RECOMMEND THAT THERE BE PROPER SEPARATION OF DUTIES IN REGARD TO THE HANDLING OF CASH AND THE MAINTENANCE OF ACCOUNTS RECEIVABLE. THIS WILL BRING ABOUT PROPER CONTROLS WHICH ARE NECESSARY IN ORDER TO BE ABLE TO RELY ON THE RELATED RECORDS.

RESPONSE:

We agree with the recommendation. We realize that the proper separation of duties for good internal control could be improved. Because of limited personnel, we cannot achieve full separation of duties.

RECOMMENDATION No. 7

WE RECOMMEND THAT THE DISHONORED CHECKS THAT CANNOT BE IDENTIFIED BE WRITTEN OFF AND THAT PROCEDURES BE ESTABLISHED TO FOLLOW-UP ON THE COLLECTION OF DISHONORED CHECKS ON A TIMELY BASIS.

RESPONSE:

We agree with the recommendation. The procedure is being established to follow-up on dishonored checks and then turn over all uncollectable dishonored checks to the Department of Revenue.

RECOMMENDATION No. 8

WE RECOMMEND THAT THE BALANCE OF ACCOUNTS RECEIVABLE THAT CANNOT BE IDENTIFIED BE WRITTEN OFF. AN ATTEMPT SHOULD BE MADE TO COLLECT THE RECEIVABLES THAT CAN BE IDENTIFIED. IF THESE ACCOUNTS CANNOT BE COLLECTED, THEY SHOULD BE TURNED OVER TO THE BAD DEBT COLLECTION SERVICE IN THE DEPARTMENT OF REVENUE.

RESPONSE:

We agree with the recommendation. Many of the receivables were brought forward into DCA at the time of its organization in 1972, consequently much of the documentation is not readily available. The receivables that cannot be identified and collected will be turned over to the Department of Revenue.

RECOMMENDATION No. 9

WE RECOMMEND THAT ONE PERSON BE PUT IN CHARGE OF ALL ACCOUNTS RECEIVABLE RECORDED IN THE DEPARTMENT, AND ALSO, THAT THE SAME PERSON BE RESPONSIBLE TO FOLLOW-UP ON COLLECTING PAST-DUE ACCOUNTS.

RESPONSE:

We agree with the recommendation. Same as recommendation #6.

RECOMMENDATION No. 10

WE RECOMMEND THAT THE TOTAL BALANCE OF THESE LOANS BE RECORDED ON THE GENERAL LEDGER AS LOANS RECEIVABLE. AFTER THESE HAVE BEEN PROPERLY SET UP ON THE GENERAL LEDGER, THE DETAILED CONTROL RECORDS SHOULD BE RECONCILED TO THE GENERAL LEDGER ACCOUNT ON A MONTHLY BASIS.

RESPONSE:

We agree with the recommendation. The S.B.A.S. does not currently have a control account for loans receivable. We will work with the Department of Administration in establishing one.

RECOMMENDATION No. 11

WE RECOMMEND THAT THE AERONAUTICS DIVISION PREPARE A MONTHLY SUMMARY STATEMENT OF ALL FLIGHT DISPATCH RECORDS. THIS SHOULD BE SENT TO THE CENTRALIZED SERVICES DIVISION, AND THEY WILL, IN TURN, CHECK TO SEE THAT THEY HAVE RECEIVED ALL OF THE FLIGHT DISPATCH RECORDS. THIS WILL ASSURE THAT NO FLIGHT DISPATCH RECORD HAS BEEN LOST OR HAS GONE UNRECORDED.

RESPONSE:

We agree with the recommendation. The Aeronautics Division will prepare a monthly summary statement of all flight dispatch records. This will be sent to the Centralized Services Division.

RECOMMENDATION No. 12

WE RECOMMEND THAT THE AIR TRANSPORTATION BUREAU OF AERONAUTICS DIVISION MAKE A LINE ITEM ADMINISTRATIVE CHARGE WITHIN THEIR PROGRAM WHEN THEIR PERSONNEL USE THE PLANES, CONSISTENT WITH THAT OF CHARGES TO OTHER AGENCIES. THIS WILL PROVIDE FOR A TRUE AIRCRAFT COST PICTURE, WHICH IS NEEDED TO DETERMINE THE PROPER RATES TO BE CHARGED.

RESPONSE:

We agree with the recommendation. All aircraft usage by the Aeronautics Division will be billed out on a flight dispatch invoice in the identical manner as all other state agencies. The appropriate Aeronautics Division program will be indicated on the invoice, thus allowing Centralized Services to assure debiting the correct program.

RECOMMENDATION No. 13

WE RECOMMEND THAT THE GOVERNOR'S OFFICE BE CHARGED ON A TIMELY BASIS FOR THE USAGE OF STATE PLANES BY THE GOVERNOR.

RESPONSE:

We agree with the recommendation. The Governor's Office is presently being charged for all flights in the same manner as all other state agencies.

RECOMMENDATION No. 14

WE RECOMMEND THAT THE BALANCE OF OUTSTANDING ACCOUNTS RECEIVABLE BE DETERMINED AND RECORDED ON THE GENERAL LEDGER. AFTER THE RECEIVABLES FROM LOCAL GOVERNMENT UNITS HAVE BEEN PROPERLY RECORDED, THE DETAILED CONTROL SUBSIDIARY LEDGER SHOULD BE RECONCILED TO THE GENERAL LEDGER ON A MONTHLY BASIS.

RESPONSE:

We agree with the recommendation. The balance of the receivables will be recorded on the general ledger and adjusted monthly to agree with the detail control records.

RECOMMENDATION No. 15

WE RECOMMEND THAT AFTER PROPER RECORDS HAVE BEEN ESTABLISHED, AT THE END OF EACH MONTH A LIST OF LOCAL GOVERNMENT ACCOUNTS RECEIVABLES BE SENT TO THE LOCAL GOVERNMENT SERVICES DIVISION SO THAT THEY MAY ACTIVELY PURSUE COLLECTION OF ANY PAST-DUE ACCOUNTS. IF, AFTER SOME TIME, PAST-DUE ACCOUNTS CANNOT BE COLLECTED, THEY SHOULD BE WRITTEN OFF OR TURNED OVER TO THE STATE BAD DEBT COLLECTION SERVICE.

RESPONSE:

We agree with the recommendation. The Local Government Services Division has been sending periodic follow-up notices to delinquent audit clients, however, a monthly follow-up would be preferable. Those past-due accounts which cannot be collected within a reasonable time will be turned over to the State Bad Debt Collection Service.

RECOMMENDATION No. 16

WE RECOMMEND THAT PERIODICALLY, AFTER THE DEPARTMENT HAS EXHAUSTED THEIR MEANS OF COLLECTION, THE PAST-DUE ACCOUNTS RECEIVABLE BE REVIEWED AND THOSE CONSIDERED UNCOLLECTIBLE WILL BE TURNED OVER TO THE BAD DEBT COLLECTION SERVICE IN THE DEPARTMENT OF REVENUE.

RESPONSE:

We agree with the recommendation. A procedure will be established to turn over larger uncollectible accounts receivable to the Bad Debt Collection Service of the Department of Revenue.

RECOMMENDATION No. 17

WE RECOMMEND THAT THE RESEARCH AND INFORMATION SYSTEM DIVISION ACCOUNTS RECEIVABLE BE RECORDED ON THE GENERAL LEDGER AND THAT THIS BALANCE BE RECONCILED TO THE DETAILED CONTROL SUBSIDIARY LEDGER ON A MONTHLY BASIS.

RESPONSE:

We agree with this recommendation. Same as recommendation #14.

RECOMMENDATION No. 18

CONTINUE TO COMPUTERIZE THE OFFICE VARIETY OF ASSETS, BUT EXPAND YOUR COMPUTER PROGRAM TO INCLUDE A MONTHLY LISTING OF ALL EQUIPMENT, ASSIGNED OR NOT. THIS MONTHLY REPORT SHOULD ALSO SHOW THE DATE EACH ITEM WAS ACQUIRED, THE ORIGINAL COST AND THE TOTAL COST OF ALL ITEMS.

RECOMMENDATION No. 19

INCLUDE ALL PERSONAL PROPERTY, INCLUDING VEHICLES, AIRCRAFT, FIRE TRUCKS, COMMUNICATION EQUIPMENT, AND SHOP TOOLS THAT COST IN EXCESS OF \$100, AND OTHER EQUIPMENT IN THE COMPUTERIZATION OF FIXED ASSETS AND THEY SHOULD THEN BE RECORDED IN A GENERAL LEDGER ACCOUNT.

RECOMMENDATION No. 20

ESTABLISH A PROCEDURE OF RECONCILING WITH THE GENERAL LEDGER CONTROL ACCOUNT BY NOTING BALANCES AT THE BEGINNING OF THE MONTH, ACQUISITIONS DURING THE MONTH, DELETIONS DURING THE MONTH AND BALANCES AT THE END OF THE MONTH. THIS BALANCE WILL THEN AGREE WITH THE MONTHLY PRINTOUT NOTED ABOVE.

RECOMMENDATION No. 21

EACH DIFFERENT CLASS OF ASSETS SHOULD BE SHOWN SEPARATELY ON THE GENERAL LEDGER. ASSIGN EQUIPMENT NUMBERS IN SUCH A MANNER THAT MONTHLY LISTINGS WILL BE BY GENERAL LEDGER ASSET CATEGORY AND WILL NOTE BOTH ACQUISITION COST AND PRESENT VALUE.

RESPONSE: (for 18,19,20 & 21)

We agree with the recommendations. Our computerized inventory program will be reviewed and revised to include a complete listing of all equipment which will then be recorded by class of assets on

the general ledger for the General Fixed Asset Fund. These totals will be adjusted periodically to reflect acquisitions and deletions.

The inventory will reflect acquisition cost only as we have no need to record the present values.

RECOMMENDATION No. 22

WHERE CERTAIN ITEMS BECOME COMPONENT PARTS OF A MAJOR UNIT SUCH AS NAVIGATIONAL OR COMMUNICATION EQUIPMENT ON A PARTICULAR AIRCRAFT, ASSIGN THESE ITEMS A NUMBER ASSOCIATING THEM WITH THAT PARTICULAR UNIT. ALSO MAINTAIN AN ON-BOARD LISTING BY UNIT NUMBER, OF ALL EQUIPMENT WHICH IS PART OF THE MAJOR UNIT. THIS CAN ALSO BE DONE FOR THE COMMUNICATION EQUIPMENT IN A NON-DIRECTIONAL RADIO BEACON AND IN AN AIRWAY BEACON INSTALLATION.

RESPONSE:

We do not agree with the recommendation. Component parts of aircraft, such as navigation communication equipment are a part of the individual aircraft permanent documents and required by the Federal Aviation Administration. It would be virtually impossible to tag or identify such equipment as these items are a permanent part of the aircraft and federal law precludes removal.

RECOMMENDATION No. 23

A CHAIN OF COMMAND OVER THE RESPONSIBILITY FOR INVENTORYING EQUIPMENT SHOULD BE ESTABLISHED FOR ALL DEPARTMENT REAL AND PERSONAL PROPERTY SO THAT ALL DIVISIONS ARE ULTIMATELY

RESPONSIBLE TO ONE PERSON FOR MAINTAINING REQUIRED CONTROLS, RE-
CONCILEMENTS AND OTHER REQUIREMENTS INVOLVING INVENTORY OF FIXED
ASSETS.

RECOMMENDATION No. 24

EACH DIVISION ADMINISTRATOR SHOULD BE PROVIDED WITH A LISTING OF
ITEMS THAT ARE CHARGED TO EACH OF THEIR EMPLOYEES AND THEY SHOULD
SIGN AND RETURN THE LIST ON AN ANNUAL BASIS. THIS WILL NOT NEGATE
THE NEED FOR AN ANNUAL INVENTORY, BUT MAY MAKE IT EASIER.

RESPONSE: (for 23 & 24)

We agree with the recommendations. An informal chain of command
for inventory and equipment exists within the Department and will
be formalized. This chain of command will ensure that each
employee will be made aware of the equipment assigned to him.

RECOMMENDATION No. 25

THAT CENTRALIZED SERVICES DIVISION PERSONNEL BE REQUIRED TO REVIEW
THE LIST OF UNASSIGNED PROPERTY, LOCATE IT AND PROCESS THE TRANSFER
TO THE RESPONSIBLE PERSON.

RESPONSE:

We agree with the recommendation. All unassigned property will be
assigned either to a responsible person or storage.

RECOMMENDATION No. 26

COMPILE A COMPLETE LIST OF ALL OWNED AND LEASED REAL ESTATE,
INCLUDING BUILDINGS AND AIRSTRIPS, NOTING THE REAL ESTATE OWNED

SEPARATE FROM THAT LEASED. THE COSTS OF OWNED LANDS AND BUILDINGS SHOULD ALSO BE SHOWN ON THESE LISTS AND THE TOTALS SHOULD BE RECORDED ON THE GENERAL LEDGER.

RESPONSE:

We agree with the recommendation. Our review of the inventory system will incorporate a complete list of all owned and leased real estate. Owned property will be recorded on the general ledger.

RECOMMENDATION No. 27

HOURLY RATES FOR PILOTS SHOULD BE CHANGED TO \$10.00 FOR EACH HOUR AWAY ON FLIGHTS INSTEAD OF \$20.00 FOR EACH HOUR OF FLYING TIME.

RESPONSE:

We agree with the recommendation. The hourly rate for pilots has already been changed to \$10.00 for each hour the pilot is away on flights. This change was in effect July 1, 1976.

RECOMMENDATION No. 28

RATES SHOULD BE INCREASED TO COVER OPERATING EXPENSES.

RESPONSE:

We agree with the recommendation. Rates have already been increased to cover actual operating expense and are reviewed periodically to insure accuracy. Rates will be changed to reflect any increase or decrease of the actual operating expenses.

RECOMMENDATION No. 29

A 10% SURCHARGE SHOULD BE ADDED TO COVER ADMINISTRATIVE EXPENSES.

RESPONSE:

We agree with the recommendation. A 10% surcharge to cover administrative expenses has been in effect since 1 July on all fixed base operator charter flights.

RECOMMENDATION No. 30

ALL AGENCIES SHOULD BE CHARGED FOR USING AIRPLANES SO THAT THE PROGRAM CAN BE FULLY FUNDED.

RESPONSE:

We agree with the recommendation. All state agencies are already being charged for use of aircraft.

RECOMMENDATION No. 31

WE RECOMMEND THAT THE RATES FOR AIRCRAFT SHOULD BE REVIEWED AND REVISED PERIODICALLY SO THAT THEY COMPLY WITH SECTION 1-1102 WHICH STATES THAT ALL OPERATING COSTS SHOULD BE RECOVERED THROUGH FEES CHARGED.

RESPONSE:

We agree with the recommendation. Aircraft rates are reviewed and revised periodically so that they reflect the true operating costs.

RECOMMENDATION No. 32

WE RECOMMEND THAT ALL REVENUE ACCOUNTS BE REVIEWED TO DETERMINE IF A BETTER DESCRIPTION SHOULD BE USED TO MORE ACCURATELY DEFINE THE NATURE OF THE REVENUE.

RESPONSE:

We agree with the recommendation. Our revenue identification descriptions have been reviewed and revised to take advantage of the new S.B.A.S. revenue identification features effective July 1, 1976.

RECOMMENDATION No. 33

WE RECOMMEND THAT AN ATTEMPT BE MADE TO REGISTER ALL PILOTS AND AIRPLANES IN THE STATE. ASSISTANCE IN DOING THIS COULD POSSIBLY BE OBTAINED FROM THE FUEL OUTLETS AT THE VARIOUS AIRPORTS IN THE STATE. ALSO, A LIST OF THE PILOTS LICENSED COULD BE OBTAINED FROM THE FEDERAL LICENSING AUTHORITY AND NOTICES COULD THEN BE SENT OUT TO ALL PILOTS.

RESPONSE:

We agree with the recommendation. The Aeronautics Division will compare the roster of Montana registered pilots against the most current federal register and make additional efforts at compliance. With the fringe benefits associated with the present registration fee of \$1.00, it is felt there is incentive for pilots to register.

Aircraft registration is required by HB121 and most Montana based and owned aircraft are presently registered. DCA pilots check airplanes located at Montana air fields for registration compliance.

It is not practical for fuel outlets to monitor aircraft registration.

RECOMMENDATION No. 34

WE RECOMMEND THAT A PROCEDURE BE ADOPTED TO ASSURE THAT THE DUPLICATE COPY OF THE STATEMENT IS SENT TO LOCAL SERVICES DIVISION AT THE SAME TIME IT IS PRESENTED TO THE UNIT BEING AUDITED.

RESPONSE:

We agree with the recommendation. The Local Government Services Division will take the steps necessary to correct the situation cited.

RECOMMENDATION No. 35

WE RECOMMEND THAT AS EACH STATEMENT IS RECEIVED FROM THE FIELD AUDITORS, A LIST BE PREPARED SHOWING THE DATE THE AUDIT WAS COMPLETED, THE NATURE OF THE EXAMINATION, THE NAME OF THE GOVERNMENT UNIT AUDITED, AND THE AMOUNT BILLED. THE STATEMENT SHOULD THEN BE FORWARDED TO THE CENTRALIZED SERVICES DIVISION. AT THE END OF EACH MONTH, A COPY OF THIS LIST SHOULD BE SENT TO CENTRALIZED SERVICES TO ASSURE THAT THEY HAVE RECEIVED ALL THE STATEMENTS RENDERED DURING THE MONTH.

RESPONSE:

We agree with the recommendation. The Division of Local Government Services now maintains a log such as described in

the recommendations. However, they will initiate the additional step of forwarding a monthly listing of audit billing statements to the Centralized Services Division.

RECOMMENDATION No. 36

WE RECOMMEND THAT ALL AUDITS COVER THE FISCAL YEAR OF THE AGENCY BEING AUDITED AND THAT THE AUDIT STAFF BE ENLARGED OR SOME OF THE AUDITS BE CONTRACTED OUT IN ORDER TO COMPLY WITH THE RESPONSIBILITY OF CONDUCTING AUDITS ON AN ANNUAL BASIS. IN ORDER TO CONDUCT A MORE EFFECTIVE AUDIT, THE AUDIT SHOULD BE COMPLETED WITHIN TWELVE MONTHS AFTER THE FISCAL YEAR-END OF THE GOVERNMENT UNIT BEING AUDITED. IT SHOULD BE NOTED THAT EFFECTIVE FOR THE YEAR BEGINNING JULY 1, 1976, INDEPENDENT PUBLIC ACCOUNTANTS CAN BE CONTRACTED TO AUDIT THESE AGENCIES IF THE CONSENT OF THE AGENCY BEING AUDITED IS OBTAINED.

RESPONSE:

We agree with the conclusions reached above; however, some amplification is required to place the recommendation in perspective.

All 380 school district and school district extracurricular fund audits are conducted on a fiscal year basis and are usually completed within twelve months after the fiscal year-end. For city and county audits, the audit periods may overlap the fiscal periods of the jurisdictions being audited; however, the financial statements presented within the audit reports issued reflect the client's fiscal period.

Regarding the two recommendations aimed at more timely audits, the Local Government Services Division has enlarged its audit staff and has taken the initiative to provide contract audits for Montana local governments. Past Executive Budgets have contained appropriation requests for additional audit staff in order to meet the division's statutory mandate; however, only modest increases in the staffing pattern have been authorized by the state legislature. Consequently, the division took the initiative in writing legislation, subsequently passed by the 1975 Montana Legislature, to authorize the use of contract audits. In order to initiate contract auditing, the division has sent questionnaires to all licensed Montana accountants and to each DCA audit client in order to assess their interest in contract audits for the fiscal year ended June 30, 1977. A liaison committee of the Montana Association of Certified Public Accountants is working closely with the division administrator in the development of a standard audit contract, as well as rules and regulations for the administration of contract audits.

Out future experience with contract audits should demonstrate the extent to which this device will provide Montana local governments with the kind of audit coverage contemplated by state law.

RECOMMENDATION No. 37

WE RECOMMEND THAT WHEN MATERIALS AND SUPPLY PURCHASES ARE MADE, A RECEIVING REPORT, PROPERLY CHECKED AND INITIALED BY A PERSON RESPONSIBLE FOR RECEIVING MERCHANDISE, BE ATTACHED TO THE INVOICE WHEN PRESENTED FOR PAYMENT, AND THAT THESE REPORTS BE INCLUDED AS A PART OF THE CLAIMS PACKAGE.

RESPONSE:

We agree with the recommendation. We are currently reviewing our receiving controls to determine the most effective report.

RECOMMENDATION No. 38

WE RECOMMEND THAT ALL INVOICES SUBMITTED FOR PAYMENT BE SIGNED FOR APPROVAL BY THE INDIVIDUAL RESPONSIBLE FOR THE PURCHASE. WE ALSO RECOMMEND THAT CENTRALIZED SERVICES DIVISION MAINTAIN AN UP-TO-DATE LIST OF THE SIGNATURES OF ALL THOSE PERSONS AUTHORIZED TO APPROVE EXPENDITURES.

RESPONSE:

We agree with the recommendation. Previously all invoices except those initiated by purchase orders were approved by responsible individuals. Now all invoices including those pertaining to purchase orders will be approved.

Currently we are compiling a list of signatures of those persons authorized to approve expenditures. This list will be up-dated with changes in authorized personnel.

RECOMMENDATION No. 39

WE RECOMMEND THAT PURCHASE ORDERS BE USED FOR THE PAYMENT OF RENT ON ALL AIRCRAFT LEASED BY THE DEPARTMENT.

RESPONSE:

We agree with the recommendation. Purchase orders will be used when the Aeronautics Division leases an aircraft.

RECOMMENDATION No. 40

WE RECOMMEND THAT TRANSPORTATION PURCHASE ORDERS, SUCH AS THOSE USED FOR COMMERCIAL FLIGHTS, ALSO BE USED WHEN A REQUEST IS MADE TO USE AIRCRAFT MAINTAINED BY THE STATE. THE TRANSPORTATION PURCHASE ORDER SHOULD BE PREPARED IN TRIPLICATE BY THE AGENCY REQUESTING THE USE OF THE AIRCRAFT. IT SHOULD HAVE A COMPLETE EXPLANATION OF THE PURPOSE OF THE FLIGHT AND SHOULD HAVE A SIGNATURE SHOWING PROPER AUTHORIZATION. ONE COPY OF THE TRANSPORTATION PURCHASE ORDER SHOULD GO TO THE AERONAUTICS DIVISION, ONE TO THE CENTRALIZED SERVICES DIVISION, AND THE OTHER SHOULD BE RETAINED BY THE AGENCY REQUESTING THE USE OF THE AIRCRAFT. AT THE END OF THE MONTH WHEN THE AERONAUTICS DIVISION SENDS THE AIRCRAFT CHARGES TO

THE CENTRALIZED SERVICES DIVISION, THE RELATED TRANSPORTATION PURCHASE ORDER SHOULD BE ATTACHED TO THE INVOICE. ALSO, WHEN THE NO-WARRANT TRANSFER IS THEN PREPARED, THE APPLICABLE TRANSPORTATION PURCHASE ORDER SHOULD BE ATTACHED TO SUPPORT THE NO-WARRANT TRANSFER.

RESPONSE:

We agree with the recommendation. The Aeronautics Division and a team of Legislative Auditors have been reviewing the operation of state operated aircraft for the past year.

This review will probably produce recommendations for the most effective system of handling state operated aircraft.

After reviewing these recommendations, the most effective system will be implemented.

RECOMMENDATION No. 41

WE RECOMMEND THAT ALL PERSONNEL FILES BE REVIEWED TO DETERMINE THAT ALL EMPLOYEE INFORMATION IS COMPLETE AND UP-TO-DATE. WE FOUND, FOR INSTANCE, THAT NOT ALL EMPLOYEES HAD A SIGNED W-4

FORM ON FILE AND VERY FEW AND DECEDENT WARRANTS. EACH PERSONNEL FILE SHOULD ALSO CONTAIN A STANDARD FORM SHOWING SUCH THINGS AS INITIAL PAY PLAN PLACEMENT, APPROPRIATION AND PROGRAM CHARGED, MERIT STEP INCREASES AND POSITION CHANGES.

RESPONSE:

We agree with the recommendation. Currently this information is available in other files, but not consolidated in the personnel files. As time allows, we will consolidate the information into the individual personnel files.

RECOMMENDATION No. 42

WE RECOMMEND THAT WRITTEN FORMAL LEAVE REQUEST FORMS BE REQUIRED FOR ALL LEAVE TAKEN. THE STANDARD FORM P-1 DESIGNED BY THE SHOULD BE USED FOR THIS PURPOSE.

RESPONSE:

We agree with the recommendation. At the present time there is no standard leave request procedure among the divisions. We will implement the use of the State standard form P-1.

RECOMMENDATION No. 43

WE RECOMMEND THAT A PROCEDURE BE ESTABLISHED TO ALLOW FOR THE APPROPRIATION OF FUNDS NEEDED TO HANDLE THE CONTINGENT LIABILITY RESULTING FROM THE ACCUMULATION OF SICK AND ANNUAL LEAVE.

RESPONSE:

We agree with the recommendation. During Fiscal Year 1976, we attempted to establish a procedure to handle the contingent liability resulting from the accumulation of sick and annual leave, but this was not accepted by the Department of Administration. We will attempt to work with the Department of Administration in addressing the problem.

RECOMMENDATION No. 44

WE RECOMMEND THAT CENTRALIZED SERVICES DIVISION PREPARE ALL FINANCIAL REPORTS AS REQUIRED BY THE CONTRACT AND WHICH MUST BE APPROVED BY THE PROJECT DIRECTOR.

RESPONSE:

We agree with the recommendation. We will take steps to assure that all divisions are aware that the Centralized Services Division will prepare for the approval of project directors all financial reports required by contracts.

RECOMMENDATION No. 45

WE RECOMMEND THAT A SUBSIDIARY LEDGER BE MAINTAINED FOR ALL CONTRACTS, RECORDING SUCH ITEMS AS GRANTEE'S NAME, CONTRACT AMOUNT, CONTRACT NUMBER, REPORTING REQUIREMENTS, CASH RECEIVED, AND CASH EXPENDED.

RECOMMENDATION No. 46

WE RECOMMEND THAT SUBSIDIARY RECORDS AND REPORTS TO GRANTEE'S BE RECONCILED TO THE STATEWIDE BUDGET AND ACCOUNTING SYSTEM REPORTS ON A MONTHLY BASIS.

RESPONSE: (for 45 & 46)

We agree with the recommendations. We are currently assigning the responsibility for all federal contracts to one person. A subsidiary ledger will be maintained for these contracts. This ledger will be reconciled monthly to S.B.A.S.

RECOMMENDATION No. 47

WE RECOMMEND THAT A REVIEW BE MADE OF THE DUTIES OF THE AUDIT BUREAU OF THE LOCAL GOVERNMENT SERVICES DIVISION. SECTION 82-4502 OF THE REVISED STATUTES OF MONTANA STATES THAT THE BOOKS AND ACCOUNTS OF ALL COUNTIES AND INCORPORATED CITIES AND TOWNS SHALL BE EXAMINED ANNUALLY. IN ORDER FOR THE AUDIT TO BE CONDUCTED PROPERLY, IT SHOULD BE INITIATED NO LATER THAN ONE YEAR FROM THE CLOSE OF THE PERIOD BEING AUDITED. APPARENTLY, BECAUSE OF THE LACK OF AUDIT PERSONNEL, THESE AUDITS HAVE NOT BEEN INITIATED AND COMPLETED ON A TIMELY BASIS.

RESPONSE:

We agree with the recommendation. Same as recommendation #6.

RECOMMENDATION No. 48

WE RECOMMEND THAT THE RECORDS KEPT BY THE DEPARTMENT RELATED TO PROPERTY MANAGEMENT, BE EXPANDED AND BROUGHT UP-TO-DATE IN ACCORDANCE WITH MANAGEMENT MEMORANDUM 70-17. ALTHOUGH RECORDS ARE KEPT RELATED TO OFFICE EQUIPMENT AND FURNITURE, WHEN ITEMS ARE REASSIGNED TO NEW OR DIFFERENT PERSONNEL, OR WHEN AN ITEM

BECOMES UNASSIGNED, FOR INTSTANCE, WHEN AN EMPLOYEE LEAVES, THE RELATED RECORDS ARE NOT ALWAYS PROPERLY ADJUSTED. WHILE THERE ARE DETAILED RECORDS REGARDING OFFICE EQUIPMENT AND FURNITURE, THERE ARE NO CONTROL RECORDS FOR MAJOR ASSETS OWNED BY THE DEPARTMENT, SUCH AS AIRPLANES AND FIRE PROTECTION VEHICLES.

RESPONSE:

We agree with the recommendation. Same as recommendation #18, 19, 20, and 21.

RECOMMENDATION No. 49

WE RECOMMEND THAT THE DEPARTMENT USE THE STANDARD REQUEST FOR A LEAVE OF ABSENCE FORM AS SHOWN IN SECTION 1-0304.81 OF THE MONTANA ADMINISTRATIVE MANUAL. WHILE MOST ABSENCES ARE PROPERLY APPROVED, THE DEPARTMENT IS NOT FOLLOWING THE PROPER PROCEDURES SET FORTH BY THE STATE OF MONTANA.

RESPONSE:

We agree with the recommendation. Same as recommendation #42.

RECOMMENDATION No. 50

WE RECOMMEND THAT THE MONTANA ADMINISTRATIVE CODE BE UPDATED AND EXPANDED. ALTHOUGH THE GENERAL ORGANIZATION RULE RELATED TO THE DEPARTMENT OF COMMUNITY AFFAIRS, AS SET FORTH IN TITLE 22 OF THE CODE IS COMPLETE, CONSIDERATION SHOULD BE GIVEN TO EXPANDING THE CODE SO THAT THERE IS A SEPARATE CHAPTER SETTING

FORTH IN DETAIL THE LAWS, STATUTES AND PROCEDURAL REQUIREMENTS APPLICABLE TO EACH DIVISION WITHIN THE DEPARTMENT. THE ONLY CHAPTER RELATED TO A SPECIFIC DIVISION WHICH IS NOW A PART OF THE CODE SETS FORTH PROVISIONS AND REQUIREMENTS APPLICABLE TO THE PLANNING AND ECONOMIC DEVELOPMENT DIVISION. HOWEVER, THIS CHAPTER IS CURRENTLY OBSOLETE, SINCE THIS DIVISION IS NOW BROKEN DOWN INTO TWO DIVISIONS, THE ECONOMIC DEVELOPMENT DIVISION AND THE PLANNING DIVISION.

RESPONSE:

We agree with the recommendation. The Montana Administrative Code should be updated and expanded. Some of our divisions do not have a need to adopt and maintain rules and regulations which merely repeat the authorized statute.

The regulations which are now listed under the Planning and Economic Development Division will be changed to reflect only the Planning Division.

RECOMMENDATION No. 51

WE RECOMMEND THAT ALL STATE AGENCIES BE CHARGED FOR USING STATE AIRPLANES ON A CURRENT BASIS. AT THE PRESENT TIME, THE GOVERNOR'S OFFICE IS NOT BEING CHARGED ON A TIMELY BASIS WHEN THE GOVERNOR USES STATE AIRPLANES. THIS IS NOT IN ACCORDANCE WITH SECTION 1-1102 OF THE REVISED CODES OF MONTANA.

RESPONSE:

We agree with the recommendation. Same as recommendation #13.

